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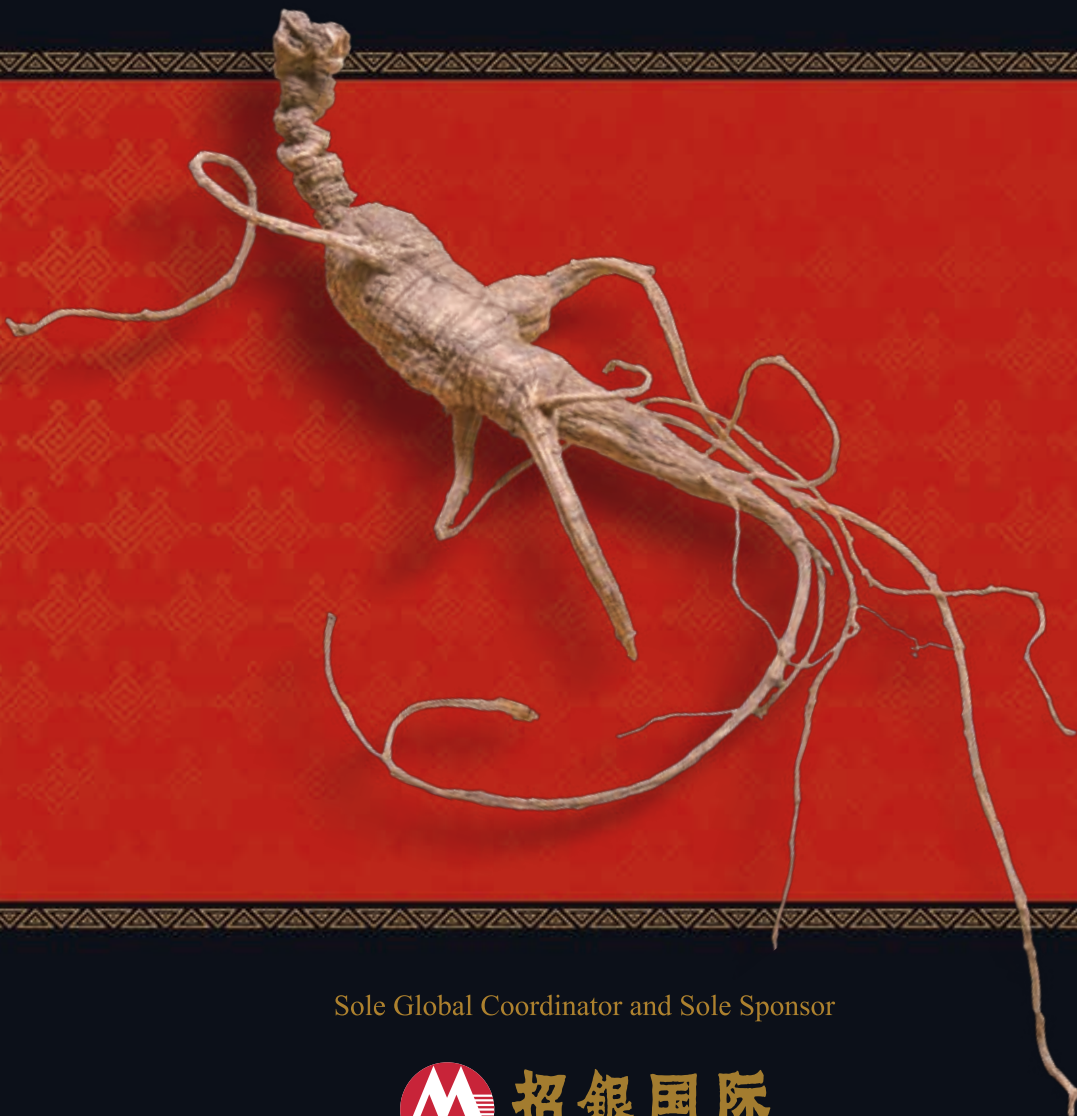
HANG FAT GINSENG

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



Sole Global Coordinator and Sole Sponsor



招銀国际

CMB INTERNATIONAL

Joint Bookrunners and Joint Lead Managers



招銀国际

CMB INTERNATIONAL



中国平安证券(香港)

PING AN OF CHINA SECURITIES (HONG KONG)

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## IMPORTANT

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*If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*



### Hang Fat Ginseng Holdings Company Limited 恒發洋參控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

#### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	500,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	50,000,000 Shares (subject to adjustment)
Number of International Placing Shares	:	450,000,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	:	Not more than HK\$1.98 and expected to be not less than HK\$1.44 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	911

#### Sole Global Coordinator and Sole Sponsor



#### Joint Bookrunners and Joint Lead Managers



中国平安证券(香港)  
PING AN OF CHINA SECURITIES (HONG KONG)

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Cap. 32 Companies (WUMP) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

See the section headed "Risk Factors" in this prospectus for a discussion of certain risks that you should consider before investing in the Shares.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 20 June 2014 and, in any event, not later than Wednesday, 25 June 2014. The Offer Price will be not more than HK\$1.98 and is currently expected to be not less than HK\$1.44, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Wednesday, 25 June 2014 between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

Applicants under the Hong Kong Public Offering are required to buy, on application, the Maximum Offer Price of HK\$1.98 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this prospectus (which is HK\$1.44 to HK\$1.98 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and on our Company's website at [www.hangfatg.com](http://www.hangfatg.com) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

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## EXPECTED TIMETABLE

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- Latest time to complete electronic applications under the  
HK eIPO White Form service through the designated website  
at [www.hkeipo.hk](http://www.hkeipo.hk)<sup>(3)</sup> . . . . . 11:30 a.m., Friday, 20 June 2014
- Application lists open<sup>(2)</sup> . . . . . 11:45 a.m., Friday, 20 June 2014
- Latest time to lodge **WHITE** and **YELLOW** application forms  
and to give **electronic application instructions** to HKSCC<sup>(4)</sup> . . 12:00 noon, Friday, 20 June 2014
- Latest time to complete payment of HK eIPO White Form  
applications by effecting internet banking transfer(s)  
or PPS payment transfer(s) . . . . . 12:00 noon, Friday, 20 June 2014
- Application lists close<sup>(2)</sup> . . . . . 12:00 noon, Friday, 20 June 2014
- Announcement of:  
– the Offer Price;  
– an indication of the level of interest in the International Placing;  
– the level of applications of the Hong Kong Public Offering; and  
– the basis of allocation of the Hong Kong Offer Shares to be  
published in the South China Morning Post (in English)  
and the Hong Kong Economic Times (in Chinese) and  
on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and  
our Company website at [www.hangfatg.com](http://www.hangfatg.com) on or before. . . . . Thursday, 26 June 2014
- Announcement of results of allocation (with successful applicants’  
identification document numbers, where applicable) will be available  
through a variety of channels, including the websites of the Stock  
Exchange and our Company, as described in the section headed  
“How to Apply for Hong Kong Offer Shares – Publication of results”  
in this prospectus from. . . . . Thursday, 26 June 2014
- Results of allocations in the Hong Kong Public Offering will be available  
at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result), with a “search by ID” function . . . . . Thursday, 26 June 2014
- Despatch of share certificates or deposit of the share certificates into  
CCASS in respect of wholly or partially successful applications  
on or before<sup>(5)</sup>. . . . . Thursday, 26 June 2014
- Despatch of HK eIPO White Form e-Auto Refund payment  
instructions/refund cheques in respect of wholly or partially  
unsuccessful applications on or before<sup>(5)(6)</sup>. . . . . Thursday, 26 June 2014
- Dealings in Offer Shares on the Stock Exchange to commence on . . . . . Friday, 27 June 2014

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## EXPECTED TIMETABLE

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*Notes:*

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Friday, 20 June 2014, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares – Effect of bad weather on the opening of the application lists” in this prospectus.
- (3) You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (4) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares – Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (5) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by their Application Forms may collect (where applicable) their refund cheques and/or (where applicable) share certificates from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Thursday, 26 June 2014 or any other date notified by us as the date of despatch of share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations which are for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations’ chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar. Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant Application Forms shortly thereafter. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your share certificates (if applying by using a WHITE Application Form or through the HK eIPO White Form service) and/or refund cheques (if applying by using WHITE or YELLOW Application Form) will be sent to the address on the Application Form on Thursday, 26 June 2014 by ordinary post and at your own risk. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares”. Share certificates will only become valid certificates of title provided that the Hong Kong Public Offering has become unconditional and neither of the Underwriting Agreements has been terminated in accordance with its terms. For applicants who apply by giving electronic application instructions, the relevant arrangements are set forth under the section headed “How to Apply for Hong Kong Offer Shares – Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (6) Refund payment will be made in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price is less than the initial price per Offer Share payable on application.

For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, you should refer to the section headed “Structure of the Global Offering” in this prospectus.

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### *IMPORTANT NOTICE TO INVESTORS*

*This prospectus is issued by Hang Fat Ginseng Holdings Company Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.*

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## SUMMARY

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*The summary below is only intended to provide a limited overview of information described in more details elsewhere in this prospectus. As it is a summary, it does not contain all of the information that may be important to you. You should therefore read this prospectus in its entirety before making an investment decision. There are risks associated with any investment, some of the particular risks in investing in the Shares are summarised in the section headed "Risk Factors" in this prospectus. You should read that section carefully before investing in the Shares.*

### OVERVIEW

We were the largest first-level American Ginseng wholesaler in Hong Kong in terms of sales revenue and sales volume in the years ended 31 December 2011, 2012 and 2013 and our market share of the total revenue generated by the first-level American Ginseng wholesalers in Hong Kong was over 50% for the year ended 31 December 2013, according to the Ipsos Report. First-level wholesalers are wholesalers who directly source and import American Ginseng from Growers, Harvesters or Bulk Exporters and wholesale to their customers. During our over 20 years in the American Ginseng industry, under the skillful management of Mr. Matthew Yeung, our Chairman, Chief Executive Officer, founder and one of our Controlling Shareholders, our business grew from a small private enterprise into one of the leading players in the American Ginseng wholesale industry in Hong Kong. Hong Kong is considered to be one of the most important American Ginseng shipping and receiving port in the world. According to the Ipsos Report, in 2013, around 90.3% of Canada's American Ginseng exports and 45.9% of the United States' American Ginseng exports were destined to Hong Kong.

We are primarily engaged in the sourcing and wholesaling of unprocessed American Ginseng, a slow-growing perennial plant with fleshy roots that is an important medical herb. Various studies associate the use of American Ginseng with improved short-term memory, lower fasting blood sugar in type two diabetes patients and enhanced immunity. The high level of ginsenosides contained in American Ginseng have been observed to stabilise insulin levels and lower blood sugar. American Ginseng is also used in cosmetics and value-added American Ginseng products such as nutrition supplement, and commodity products, including beverages, chewing gum and shampoo.

American Ginseng is classified into two major categories: Wild Ginseng (which is gathered from the natural environment) and Cultivated Ginseng (which is farmed). Within the supply chain for American Ginseng, Cultivated Ginseng is sourced from Growers whereas Wild Ginseng is sourced from Harvesters. Growers and Harvesters sell American Ginseng to first-level wholesalers, either directly or through Bulk Exporters. First-level wholesalers then sell unprocessed American Ginseng either to secondary wholesalers (potentially through multiple layers of wholesalers), or to processors or manufacturers of pharmaceutical products and American Ginseng products which then sort, grade, cut and process the American Ginseng. Ultimately, the American Ginseng is sold to consumers through retailers which operate retail shops or sales counters.

We do not cultivate or harvest American Ginseng. We purchase all of our unprocessed American Ginseng from Growers and Bulk Exporters based in Canada and the United States and a relatively small amount of processed American Ginseng from suppliers based in Hong Kong. We sell our American Ginseng in Hong Kong to our customers who are primarily secondary wholesalers and retailers of American Ginseng mainly based in Hong Kong, the PRC, Taiwan and Southeast Asia. We are also engaged in retail sales of processed American Ginseng and Other Products through our retail outlet in Sheung Wan, Hong Kong, and periodically through store-in-store concessions in selected hypermarkets and supermarkets in Hong Kong.

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## SUMMARY

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For further details of the regulations applicable to us and our business, please refer to the section headed “Regulatory Overview” and the paragraphs headed “Risk Factors – We operate in a highly regulated industry” and “Business – Special import/export requirements under CITES” in this prospectus.

### PRODUCTS

We principally sell Cultivated Ginseng, and, to a lesser extent, also offer Wild Ginseng and Other Products to our customers. We offer our American Ginseng to customers in bulk form or packaged form. Cultivated Ginseng is a kind of American Ginseng that is grown in tilled beds under shades of artificial structures or under natural shade. Wild Ginseng is a kind of American Ginseng that has been collected from the natural habitat. Other Products mainly comprise dried cordyceps, cubilose, shiitake mushroom, black moss, dendrobium, pseudoginseng, deer tail, deer antler, Chinese angelica, abalone, sea cucumber, scallops, shark fin, fish maw and saffron. The table below sets out a breakdown of our revenue derived from each of our principal products during the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December					
	2011		2012		2013	
	Revenue <i>HK\$'000</i>	<i>% of total revenue</i>	Revenue <i>HK\$'000</i>	<i>% of total revenue</i>	Revenue <i>HK\$'000</i>	<i>% of total revenue</i>
American Ginseng						
– Cultivated Ginseng	439,234	98.4	403,758	82.0	675,079	88.5
– Wild Ginseng	<u>5,290</u>	<u>1.2</u>	<u>38,617</u>	<u>7.8</u>	<u>50,799</u>	<u>6.7</u>
Total American Ginseng	444,524	99.6	442,375	89.8	725,878	95.2
Other Products	<u>1,856</u>	<u>0.4</u>	<u>49,901</u>	<u>10.2</u>	<u>37,092</u>	<u>4.8</u>
<b>Total</b>	<b><u>446,380</u></b>	<b><u>100.0</u></b>	<b><u>492,276</u></b>	<b><u>100.0</u></b>	<b><u>762,970</u></b>	<b><u>100.0</u></b>

The following table sets forth a breakdown of the sales volume and average selling prices of our Cultivated Ginseng and Wild Ginseng for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	Sales volume <i>KG</i>	Average selling price <i>HK\$/KG</i>	Sales volume <i>KG</i>	Average selling price <i>HK\$/KG</i>	Sales volume <i>KG</i>	Average selling price <i>HK\$/KG</i>
Cultivated Ginseng	1,060,065	414.3	1,012,055	398.9	1,108,009	609.3
Wild Ginseng	379	13,957.8	2,782	13,881.0	2,919	17,402.9



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## SUMMARY

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### SALES CHANNELS

We principally sell our products through our wholesale channel, and also sell some of our products at our retail outlet in Sheung Wan, Hong Kong, and periodically through store-in-store concessions in selected hypermarkets and supermarkets in Hong Kong since 2013. The table below sets out a breakdown of our revenue derived from our wholesale and retail operations during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	HK\$'000	revenue	HK\$'000	revenue	HK\$'000	revenue
Wholesale operation	444,562	99.6	488,401	99.2	759,092	99.5
Retail operation	1,818	0.4	3,875	0.8	3,878	0.5
<b>Total</b>	<b>446,380</b>	<b>100.0</b>	<b>492,276</b>	<b>100.0</b>	<b>762,970</b>	<b>100.0</b>

Under our wholesale operation, we sell Cultivated Ginseng, Wild Ginseng and Other Products to wholesale customers on an order-by-order basis. When our customers want to purchase a certain type of product, they will contact us to make arrangements for visiting our warehouses in Hong Kong to conduct a physical inspection on the products.

Negotiation on the terms of sales is generally conducted in person or via telephone during the visit or shortly after visiting our warehouses. We are generally not responsible for any transportation or insurance arrangements after products are retrieved from our warehouses or are delivered to the port in Hong Kong. Our Directors confirm that we do not enter into any distribution or sales agency agreements with any of our wholesale customers, nor do we enter into any long-term sales contracts with them.

Under our retail operation, we sell processed Cultivated Ginseng, processed Wild Ginseng and Other Products to retail customers at our outlet in Sheung Wan, Hong Kong, and processed Cultivated Ginseng in our store-in-store concessions in selected hypermarkets and supermarkets in Hong Kong since 2013.

### CUSTOMERS

Customers of our wholesale operation mainly comprise secondary wholesalers and retailers of American Ginseng and Other Products mainly based in Hong Kong, the PRC, Taiwan and Southeast Asia. We have established long and stable relationships with many of our wholesale customers, most of which have been dealing with us for over five years. We had approximately 62, 40 and 37 wholesale customers for the years ended 31 December 2011, 2012 and 2013, respectively. We provide credit periods ranging from 30 days to 90 days to a majority of our wholesale customers. For wholesale customers which we consider creditable and will make large purchases, we may grant credit periods of up to 180 days.

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## SUMMARY

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We serve the customers of our retail operation who shop at our outlet in Sheung Wan, Hong Kong or place orders through telephone, facsimile or email. In addition, we also operate store-in-store concessions in selective hypermarkets and supermarkets in Hong Kong. Sales at our retail outlet are paid for at the time of purchase by cash or credit cards.

For the years ended 31 December 2011, 2012 and 2013, sales to our five largest customers, which were all customers of our wholesale operation, accounted for approximately 76.4%, 63.5% and 66.5% of our revenue, and sales to our largest customer, for the years ended 31 December 2011, 2012 and 2013, accounted for approximately 27.6%, 15.3% and 26.0% of our revenue, respectively. Our five largest customers during the Track Record Period are mainly based in Guangdong Puning Chinese Herbal Medicine Market\* (廣東普寧中藥材專業市場) which is one of the major traditional Chinese herbal medicine distribution centres in the PRC. For further details, please refer to the section headed “Business – Customers and Sales” in this prospectus.

### SUPPLIERS

Our suppliers mainly comprise Growers, Bulk Exporters (who consolidate shipments of American Ginseng from other Growers or Harvesters for export) and suppliers of Other Products. We have established long and stable relationships with our suppliers, most of whom have been supplying to us for more than five years. For the years ended 31 December 2011, 2012 and 2013, we engaged approximately 50, 90 and 56 suppliers respectively. Our purchase from the five largest suppliers of our Group accounted for approximately 56.6%, 40.7% and 39.2% of our total purchases for the years ended 31 December 2011, 2012 and 2013, respectively.

We do not cultivate or harvest American Ginseng. We purchase Cultivated Ginseng mainly from Growers with the assistance of the Canadian Bulk Exporter located in Ontario, Canada. We generally source Wild Ginseng from two Bulk Exporters located in the United States. Early in the harvest season, we visit various Cultivated Ginseng farms in Canada to directly assess and obtain information regarding the production volume and quality of Cultivated Ginseng. We also contact the Bulk Exporters located in the United States directly to collect information on the selling price and quantity of Wild Ginseng harvested. Purchase decisions will be made according to the price, volume and product quality. The Growers are responsible for washing, drying and packaging the unprocessed Cultivated Ginseng and Wild Ginseng before the products are shipped to Hong Kong. Whilst we have a long-term exclusive agreement with the Canadian Bulk Exporter to arrange for customs formalities and shipping of unprocessed Cultivated Ginseng from Canada, we have not entered into any long term supply agreements with Growers for Cultivated Ginseng or Bulk Exporters of Wild Ginseng or other suppliers and instead enter into individual purchase orders with them for purchases.

We also purchase Cultivated Ginseng, Wild Ginseng and Other Products on an ad hoc basis mainly from suppliers based in Hong Kong. After we have inspected the quality of the products and confirmed the purchase order, these suppliers are required to deliver the products to our warehouses in Hong Kong. We normally receive credit terms of 90 days to 150 days from our suppliers. The largest supplier of our Group, which was a Grower based in Canada and for the years ended 31 December 2011 and 2012 and another Grower also based in Canada for the year ended 31 December 2013, accounted for approximately 17.3%, 12.3% and 10.4% of our total purchases for the years ended 31 December 2011, 2012 and 2013, respectively. For further details, please refer to the section headed “Business – Purchasing” in this prospectus.

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## SUMMARY

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### COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success:

- The largest first-level American Ginseng wholesaler in Hong Kong in terms of sales revenue and sales volume with a well-recognised brand
- Experienced management team with a proven track record
- We have quality and stable supply of unprocessed American Ginseng due to our specialised skill in sourcing and valuable relationships with Growers, Bulk Exporters and other suppliers
- Strategically located in Hong Kong, a leading hub for import and export of American Ginseng

### BUSINESS STRATEGIES

In order to enhance our competitiveness and achieve sustainable business growth, we plan to pursue the following strategies:

- Strengthen purchasing power and continue to source quality American Ginseng from Growers and Bulk Exporters
- Enhance brand image and promotion of the use of American Ginseng for health conscious consumption
- Leverage on leading market position to diversity product offerings and expand our retail network

### RISK FACTORS

There are certain risks involved in our business and details of such risks are set out in the section headed “Risk Factors” in this prospectus. Some of the material risks relating to our business which our Directors consider appropriate include, but are not limited to:

- We rely on external Growers, Bulk Exporters and other suppliers for all of our supplies of American Ginseng
- We operate in a highly regulated industry
- We are subject to various risks relating to Third Party Payments, including (i) possible claims from Third Party Payers for return of funds as they were not contractually indebted to our Group; (ii) possible claims from liquidators of the Third Party Payers; and (iii) money laundering risk.
- We depend on the experience and industry expertise of our key executives and personnel
- We derive a significant portion of our revenue from our five largest customers

### REGULATIONS OF AMERICAN GINSENG

American Ginseng is classified as endangered species under CITES, which has been implemented by legislation in member countries, including Canada, the United States, Hong Kong and the PRC in respect of, among other things, the import and export of American Ginseng.

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## SUMMARY

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Below is a summary of the requirements under CITES relevant to our business:

- Hong Kong: We import American Ginseng into Hong Kong. For all our imports of American Ginseng, we are required to obtain a CITES certificate from the relevant authorities in the country of export and (in the case of Wild Ginseng) an import licence issued by the relevant authorities in Hong Kong. As we are involved in the export of American Ginseng for some of our customers on a case by case basis, we are required to obtain a re-export licence from the relevant authorities in Hong Kong. Our Directors confirm that we have complied with these requirements during the Track Record Period and up to the Latest Practicable Date.
- Canada: We purchase Cultivated Ginseng from Growers with the assistance of the Canadian Bulk Exporter. All of the relevant requirements for the export of the Cultivated Ginseng from Canada are handled by the Canadian Bulk Exporter and therefore we do not engage in the export of Cultivated Ginseng from Canada. Canadian customers who purchase American Ginseng from us handle relevant requirements for import of the American Ginseng into Canada. We are only responsible for handling the import of Cultivated Ginseng into Hong Kong, as described above. Therefore, we were not subject to CITES regulations in Canada governing the export or import of Cultivated Ginseng during the Track Record Period and up to the Latest Practicable Date. The Canadian Bulk Exporter was subject to and has represented to us that it was in compliance with CITES regulations.
- The United States: We purchase Wild Ginseng from Bulk Exporters located in the United States, in states including Ohio, Kentucky, Indiana and Pennsylvania. However, we do not engage in the export of American Ginseng from the United States, as the export formalities are handled by Bulk Exporters. We are only responsible for handling the import of Wild Ginseng into Hong Kong. Therefore, we were not subject to the relevant CITES requirements for the export of American Ginseng in the states of Ohio, Kentucky, Indiana, Pennsylvania or under U.S. federal law during the Track Record Period and up to the Latest Practicable Date.
- The PRC: Pursuant to the Regulations of the PRC on Protection of Wild Plants (中華人民共和國野生植物保護條例), the other relevant PRC regulations and the regulatory practice of the competent authorities, a series of import and export certificates or approvals (including a CITES certificate (允許進出口證明書)) and performance of other statutory formalities is required for the export of American Ginseng from and the import of American Ginseng into the PRC. Whilst we sell American Ginseng to PRC based customers and purchase it from PRC based suppliers, we had no obligation to conduct and had never intervened/involved in any formalities and/or procedures with respect to the export of American Ginseng from the PRC to Hong Kong or the import of it from Hong Kong into the PRC. All such transactions were completed in Hong Kong, and the import and export formalities are independently handled by the customers, suppliers or their designees. Therefore, we were not subject to the Regulations of the PRC on Protection of Wild Plants and other relevant PRC regulations during the Track Record Period and up to the Latest Practicable Date.

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## SUMMARY

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### NON-COMPLIANCE

Some of our subsidiaries incorporated in Hong Kong have on various occasions not complied with certain statutory requirements under sections 111 and 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. sections 431 and 610 of Cap. 622 Companies Ordinance) while we failed to convene annual general meetings within the statutory period and laid before them and their shareholders at each of the annual general meetings audited accounts made up to a date falling not more than nine months before the date of the relevant annual general meeting. Upon identification of the instances of non-compliance, we have taken corresponding steps to remedy the non-compliance incidents.

HF Hong had not complied with the IRO as it has understated its profit in respect of which it is required by the IRO to make a return primarily due to: (i) HF Hong had applied a fixed exchange rate between CAD and HKD for the year of assessment from 2003/04 to 2007/08 for the calculation of its costs of sales without taking into consideration of the exchange rate fluctuation; and (ii) HF Hong took into account of non-deductible expenses and non-exempted gains for the year of assessment of 2009/10 and 2010/11, and hence its profit for the years of assessment from 2003/04 to 2007/08 and from 2009/10 to 2010/11 was understated and the profit tax against HF Hong was undercharged throughout the year of assessment from 2003/04 to 2010/11 (save for the year of assessment of 2008/09). Between March 2010 and March 2013, the IRD issued additional assessment demanding final tax relating to the years of assessment and revised assessment demanding final tax for the years from 2003/04 to 2007/08 and from 2009/10 to 2010/11 against HF Hong. HF Hong has agreed with the IRD on the amount of additional tax payable of approximately HK\$11,165,000 in aggregate for the years of assessment from 2003/04 to 2007/08 and from 2009/10 to 2010/11 and tax penalty of approximately HK\$7,870,000. We have settled the entire amount outstanding with the IRD by 3 July 2013.

### KEY OPERATIONAL AND FINANCIAL DATA

#### Selected data from our combined statements of profit or loss and other comprehensive income

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Revenue	446,380	492,276	762,970
Gross profit	88,156	80,396	179,424
Profit before taxation	58,054	60,770	152,939
– excluding non-operating items <sup>#</sup>	51,807	37,044	152,288
Income tax expense	(13,645)	(28,428)	(24,326)
Profit for the year	44,409	32,342	128,613
– excluding non-operating items <sup>#</sup>	38,162	8,616	127,962

<sup>#</sup> *Non-operating items include net rental income from investment property, sundry income, changes in fair value of investment properties, changes in fair value of derivative financial instruments, gain on disposal of subsidiaries and listing expenses.*

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## SUMMARY

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### Selected data from our combined statements of financial position

	As at 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	500,618	608,205	907,973
Current liabilities	644,007	583,746	759,307
Net current (liabilities)/assets	(143,389)	24,459	148,666
Net assets	189,042	113,586	242,200

### Selected data from our combined statements of cash flows

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	175,276	4,786	48,081
Net cash (used in) from investing activities	(154,621)	87,156	(21,900)
Net cash (used in) from financing activities	(6,226)	(95,925)	6,865

### Selected financial ratios

	Year ended 31 December		
	2011	2012	2013
Gross profit margin	19.7%	16.3%	23.5%
Net profit margin	9.9%	6.6%	16.9%
– excluding non-operating items	8.5%	1.8%	16.8%
Gearing ratio	274.0%	301.8%	149.3%
Current ratio	0.8	1.0	1.2

We experienced growth in revenue during the Track Record Period. Our revenue increased from approximately HK\$446.4 million in the year ended 31 December 2011 to approximately HK\$763.0 million in the year ended 31 December 2013, representing a CAGR of approximately 30.7%.

Our gross profit increased from approximately HK\$88.2 million in the year ended 31 December 2011 to approximately HK\$179.4 million in the year ended 31 December 2013, representing a CAGR of approximately 42.6%, despite a decrease in our gross profit by approximately HK\$7.8 million, or approximately 8.8%, from approximately HK\$88.2 million for the year ended 31 December 2011 to approximately HK\$80.4 million for the year ended 31 December 2012.

Our net profit increased from approximately HK\$44.4 million in the year ended 31 December 2011 to approximately HK\$128.6 million in the year ended 31 December 2013, representing a CAGR of approximately 70.2%, despite a decrease in our net profit by approximately HK\$12.1 million, or approximately 27.3%, from approximately HK\$44.4 million for the year ended 31 December 2011 to approximately HK\$32.3 million for the year ended 31 December 2012.

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## SUMMARY

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Excluding the non-operating items, our adjusted net profit for the year increased from approximately HK\$38.2 million in the year ended 31 December 2011 to approximately HK\$128.0 million in the year ended 31 December 2013, representing a CAGR of approximately 83.1%, despite a decrease in our adjusted net profit by approximately HK\$29.6 million, or approximately 77.5%, from approximately HK\$38.2 million for the year ended 31 December 2011 to approximately HK\$8.6 million for the year ended 31 December 2012.

Our operating cash flows for the years ended 31 December 2011, 2012 and 2013 were approximately HK\$17.8 million, HK\$14.2 million and HK\$47.4 million, respectively. Our net cash from operating activities for the years ended 31 December 2011, 2012 and 2013 were approximately HK\$175.3 million, HK\$4.8 million and HK\$48.1 million, respectively. The decrease in our net cash from operating activities from approximately HK\$175.3 million for the year ended 31 December 2011 to approximately HK\$4.8 million for the year ended 31 December 2012 was mainly attributable to the combined effect of (i) a decrease in our gross profit from approximately HK\$88.2 million for the year ended 31 December 2011 to approximately HK\$80.4 million for the year ended 31 December 2012; and (ii) an increase in our purchases from approximately HK\$211.4 million for the year ended 31 December 2011 to approximately HK\$601.4 million for the year ended 31 December 2012, which was mainly attributable to the increase in our purchases during the fourth quarter of 2012 in order to meet our sales orders for first quarter of 2013.

The balance of our inventory as at 31 December 2011, 2012 and 2013 were approximately HK\$132.4 million, HK\$324.8 million and HK\$563.7 million, respectively. As we generally begin purchasing American Ginseng at the beginning of the harvest season, which is usually in the last quarter of each calendar year while most of our sales are conducted in the first and second quarters of the next calendar year, therefore our inventory balance at the end for each calendar year is relatively high. In our anticipation of the continuous increase in the demand for American Ginseng, in particular Cultivated Ginseng, which is in line with the Ipsos Report, we intend to further strengthen our purchasing power after Listing. As a result, our operating results and cash flows may vary substantially from period to period.

We recorded net current liabilities of approximately HK\$143.4 million as at 31 December 2011, mainly as a result of an increase in bank borrowings for the purchase of American Ginseng and our investment in investment properties. Our net working capital improved to a net current asset position of approximately HK\$24.5 million as at 31 December 2012. This improvement was primarily due to a decrease in bank borrowings from approximately HK\$517.9 million as at 31 December 2011 to approximately HK\$342.8 million as at 31 December 2012.

Our net working capital further improved as at 31 December 2013 and recorded net current assets of approximately HK\$148.7 million. This improvement was primarily due to increase in inventories from approximately HK\$324.8 million as at 31 December 2012 to approximately HK\$563.7 million as at 31 December 2013 and an increase in bank balances and cash from approximately HK\$14.2 million as at 31 December 2012 to approximately HK\$47.4 million as at 31 December 2013.

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## SUMMARY

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### LISTING EXPENSES

We incurred approximately HK\$10.6 million of expenses in connection with the Global Offering during the Track Record Period. Assuming the Over-allotment Option is not exercised and the Offer Price is HK\$1.71 per Offer Share, being mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus, we expect to incur an additional HK\$53.1 million in listing expenses in connection with the Global Offering and the Listing after the Track Record Period, of which approximately HK\$16.1 million is expected to be charged to our administrative and other operating expenses for the year ending 31 December 2014 and the remaining HK\$37.0 million will be charged against equity. We do not expect such listing expenses to have a material impact on our results of operations for the year ending 31 December 2014.

### OUR RECENT DEVELOPMENT

As at the Latest Practicable Date, there has been no material change to our business model and product mix. Based on the unaudited consolidated management accounts for the four months ended 30 April 2014 of Hang Fat Group Holdings, the then holding company of our Group immediately prior to Reorganisation completed on 23 May 2014, that were prepared by the directors of Hang Fat Group Holdings in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA and reviewed by Deloitte Touche Tohmatsu, the reporting accountants of our Company in accordance with the Hong Kong Standards on Review Engagements 2410 “Review on Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, our revenue was approximately HK\$705.0 million and our gross profit was approximately HK\$252.9 million. Our unaudited gross profit margin was approximately 35.9% for the four months ended 30 April 2014, which represented a significant increase as compared to the gross profit margin of approximately 23.5% for the year ended 31 December 2013. The average selling prices and our gross profit margin for the sales of our Cultivated Ginseng, Wild Ginseng and Other Products also increased during the same period. As at 30 April 2014, we had utilised banking facilities of approximately HK\$362.5 million and unutilised banking facilities of approximately HK\$10.8 million. Our comparative unaudited consolidated management accounts for the four months ended 30 April 2013 have not been reviewed.

Our Directors confirm that, as at the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2013 and no event has occurred since 31 December 2013 that would materially and adversely affect the information shown in the Accountants’ Report set forth in Appendix I to this prospectus.



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## SUMMARY

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### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$791.2 million, after deducting the underwriting fees and commissions and other estimated expenses payable by us in relation to the Global Offering, assuming the Over-allotment Option is not exercised and the Offer Price is HK\$1.71 per Offer Share, being mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. We intend to apply the net proceeds from the Global Offering for the following purposes:

<b>Amount of proceeds (%)</b>	<b>Intended application of proceeds</b>
HK\$553.9 million (70%)	To strengthen our purchasing power and increase our market share in the wholesale market of Cultivated Ginseng and Wild Ginseng. Based on the current market demand and supply, our Directors estimate that within the approximately HK\$553.9 million, approximately 90% will be utilised for purchase of Cultivated Ginseng and approximately 10% will be utilised for purchase of Wild Ginseng, all of which will be offered for sale to our customers. We will adjust the current estimation as necessary with reference to the then market demand and supply conditions.
HK\$134.5 million (17%)	To repay certain outstanding bank loans all of which are working capital loans with interest rates ranging from 2.22% to 6% and were drawdown in or after July 2009 and will be due before February 2019.
HK\$23.7 million (3%)	To advertise and market our Hang Fat (恒發) brand and expand our retail presence through the establishment of store-in-store concessions, to expand our retail operation department and to recruit sales personnel for managing our store-in-store concessions.
HK\$79.1 million (10%)	For general working capital and other general corporate purposes.

Assuming the Over-allotment option is not exercised, if the Offer Price is set at HK\$1.44, being the low-end of the indicative Offer Price, or HK\$1.98, being the high-end of the indicative Offer Price, our net proceeds will be decreased to approximately HK\$661.0 million or increased to approximately HK\$921.5 million, respectively. In the event that the Offer Price is set at the high-end or low-end of the indicative Offer Price range or the Over-allotment Option is exercised, our intended use of proceeds will be increased or decreased on a pro-rata basis.

### DIVIDENDS AND DIVIDEND POLICY

Our Company has not declared or paid any dividends for the years ended 31 December 2011, 2012 and 2013.

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## SUMMARY

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HF Hong declared and paid dividends of approximately HK\$78.5 million and HK\$61.3 million to its shareholders during the years ended 31 December 2011 and 2012, respectively. In addition, HF Ginseng Importer declared and paid a dividend of approximately HK\$50.0 million during the year ended 31 December 2012 to its shareholders. On 21 May 2014, each of HF Hong, HF Ginseng Importer, HF Importer and Hang Fat (2013) declared and paid a dividend of HK\$25 million, HK\$50 million, HK\$95 million and HK\$40 million, to their respective shareholders, respectively. Subject to the factors as disclosed in the section headed “Financial Information” of this prospectus, our Directors currently intend to recommend an annual dividend of 50% of the net profit available for distribution to our Shareholders for the year ending 31 December 2014 following the Global Offering, and an annual dividend of no less than 30% of the net profit available for distribution to our Shareholders in the subsequent years in foreseeable future. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay any dividends at all; and our dividend policy may also change from time to time subject to the factors described above.

### SHAREHOLDER INFORMATION

Immediately following completion of the Capitalisation Issue and the Global Offering (before taking into account Shares which may be issued pursuant to the exercise of the Over-allotment Option), Cervera, Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu will effectively hold approximately 60%, 47.25%, 22.5% and 5.25% of the total the issued share capital of our Company. For further details, please refer to the sections headed “Relationship with Controlling Shareholders” and “Substantial Shareholders” in this prospectus.

### GLOBAL OFFERING STATISTICS<sup>(1)</sup>

	<b>Based on an Offer Price of HK\$1.44</b>	<b>Based on an Offer Price of HK\$1.98</b>
Market capitalisation of the Shares <sup>(2)</sup>	HK\$2,880,000,000	HK\$3,960,000,000
Unaudited pro forma adjusted combined net tangible asset value per Share <sup>(3)</sup>	HK\$0.46	HK\$0.59

*Notes:*

- (1) All statistics in this table do not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.
- (2) The calculation of market capitalisation is based on 2,000,000,000 Shares expected to be in issue immediately upon completion of the Global Offering.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share has been arrived at after adjustments referred to in the section headed “Financial Information — Unaudited pro forma adjusted combined net tangible assets” in this prospectus and on the basis of 2,000,000,000 Shares in issue at the respective Offer Price of HK\$1.44 and HK\$1.98 per Offer Share immediately following completion of the Global Offering.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.*

“Ace Fame”	Ace Fame Management Limited, a company incorporated in the BVI with limited liability on 10 March 2011 and 100% held by Madam Fu as at the Latest Practicable Date; one of our Controlling Shareholders
“Affiliate”	in relation to a body corporate, any subsidiary undertaking or parent undertaking of such body corporate, and any subsidiary undertaking of any such parent undertaking for the time being
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company adopted on 9 June 2014, and as amended, modified or supplemented from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Athena Power”	Athena Power Limited, a company incorporated in the BVI with limited liability on 10 June 2011 and 100% held by Mr. Matthew Yeung as at the Latest Practicable Date; one of our Controlling Shareholders
“Billion Victor”	Billion Victor Enterprises Limited (滙億企業有限公司), a company incorporated in Hong Kong with limited liability on 26 February 2009, and an indirect wholly-owned subsidiary of our Company prior to our Reorganisation. As at the Latest Practicable Date, Billion Victor was no longer a subsidiary of our Group and was wholly-owned by Mr. Matthew Yeung
“Billion Wealth”	Billion Wealth Overseas Limited, a company incorporated in the BVI with limited liability on 20 March 2013, and an indirect wholly-owned subsidiary of our Company
“Board of Directors” or “Board”	the board of Directors
“Business Day”	a day which is not a Saturday, a Sunday or a public holiday in Hong Kong and on which banks in Hong Kong are generally open for business

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## DEFINITIONS

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“BVI”	the British Virgin Islands
“CAD”	Canadian dollars, the lawful currency of Canada
“CAGR”	compound annual growth rate
“Cap. 32 Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, with effect from 3 March 2014, as amended and supplemented from time to time
“Cap. 622 Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, with effect from 3 March 2014 (known as the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014), as amended and supplemented from time to time
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of the share premium account of our Company as referred to in the section headed “Further Information About Our Group – Resolution of our Shareholders” in Appendix V to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Cayman Share Registrar”	Codan Trust Company (Cayman) Limited
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Cervera”	Cervera Holdings Limited, a company incorporated in the BVI with limited liability on 21 January 2011, and held as to 63%, 30% and 7% by Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu, respectively as at the Latest Practicable Date; one of our Controlling Shareholders

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## DEFINITIONS

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“CMB International”, “Sole Global Coordinator”, “Sole Sponsor”	CMB International Capital Limited, a corporation licensed under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO), acting as the sole global coordinator and one of the joint bookrunners of the Global Offering, and the sole sponsor of the Listing
“CMBIS” or “Stabilising Manager”	CMB International Securities Limited, a corporation licensed under the SFO permitted to carry on Type 1 (dealing in securities) of the regulated activities (as defined in the SFO), acting as one of the joint lead managers and the stabilising manager of the Global Offering
“Company” or “our Company”	Hang Fat Ginseng Holdings Company Limited (恒發洋參控股有限公司), a company incorporated in the Cayman Islands on 18 August 2011 as an exempted company with limited liability
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, refers to Cervera, Ace Fame, Dragon Jump, Athena Power, Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu
“Director(s)”	director(s) of our Company or any of them
“Dongguan HF”	東莞南城恒發洋參有限公司 (Dongguan Nancheng Hang Fat Ginseng Company Limited*), a company established in the PRC with limited liability on 12 July 2011, and a then indirect wholly-owned subsidiary of our Company. As at the Latest Practicable Date, Dongguan HF was no longer a subsidiary of our Group and was owned by an Independent Third Party
“Dragon Jump”	Dragon Jump Global Limited (躍龍國際有限公司), a company incorporated in the BVI with limited liability on 1 October 2009 and 100% held by Mr. Jeffrey Yeung as at the Latest Practicable Date; one of our Controlling Shareholders
“Elegant Ocean”	Elegant Ocean Limited (雅洋有限公司), a company incorporated in the BVI with limited liability on 3 January 2013, and an indirect wholly-owned subsidiary of our Company
“Flying Century”	Flying Century Limited (飛昇有限公司), a company incorporated in Hong Kong with limited liability on 8 August 2003, and an indirect wholly-owned subsidiary of our Company
“Fortune Gaining”	Fortune Gaining Limited (浚威有限公司), a company incorporated in Hong Kong with limited liability on 17 March 2009, and an indirect wholly-owned subsidiary of our Company

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## DEFINITIONS

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“Global Offering”	the Hong Kong Public Offering and the International Placing
“Greatest Maker”	Greatest Maker Limited (弘和有限公司), a company incorporated in Hong Kong with limited liability on 23 May 2013, and an indirect wholly-owned subsidiary of our Company
“Greatest Summit”	Greatest Summit Limited (弘峰有限公司), a company incorporated in Hong Kong with limited liability on 27 September 2013, and an indirect wholly-owned subsidiary of our Company
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by its present subsidiaries or (as the case may be) its predecessor
“Hang Fat (2013)”	Hang Fat Ginseng Importer (2013) Limited (恒發洋參(2013)有限公司), a company incorporated in Hong Kong with limited liability on 24 May 2013, and an indirect wholly-owned subsidiary of our Company
“Hang Fat Group Holdings”	Hang Fat Group Holdings Limited, a company incorporated in the BVI with limited liability on 18 June 2013, and a direct wholly-owned subsidiary of our Company
“Heng Xhin”	Heng Xhin Group Company Limited (衡心集團有限公司), a company incorporated in Hong Kong with limited liability on 30 April 2010 and held as to 51% and 49% by HF Hong and Moment Design Company Limited, an Independent Third Party, prior to our Reorganisation. As at the Latest Practicable Date, Heng Xhin was no longer a subsidiary of our Group and had been dissolved
“HF Ginseng”	Hang Fat Ginseng Company Limited (恒發洋參有限公司), a company incorporated in Hong Kong with limited liability on 8 May 2013, and an indirect wholly-owned subsidiary of our Company
“HF Ginseng Importer”	Hang Fat Ginseng Importer Limited (恒發洋參行有限公司), a company incorporated in Hong Kong with limited liability on 11 April 2011, and an indirect wholly-owned subsidiary of our Company

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## DEFINITIONS

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“HF Ginseng Retail”	Hang Fat Ginseng (Retail) Limited (恒發參茸(零售)有限公司), a company incorporated in Hong Kong with limited liability on 8 May 2013, and an indirect wholly-owned subsidiary of our Company
“HF Ginseng Trading”	Hang Fat Ginseng Trading Company Limited (恒發洋參貿易有限公司), a company incorporated in Hong Kong with limited liability on 8 May 2013, and an indirect wholly-owned subsidiary of our Company
“HF Holdings”	Hang Fat Holdings Limited, a company incorporated in Hong Kong with limited liability on 17 May 2010, and an indirect wholly-owned subsidiary of our Company
“HF Hong”	Hang Fat Ginseng Hong Limited (恒發參茸行有限公司), a company incorporated in Hong Kong with limited liability on 28 April 1989, and an indirect wholly-owned subsidiary of our Company
“HF Importer”	Hang Fat Importer Limited (恒發洋行有限公司), a company incorporated in Hong Kong with limited liability on 23 November 2012, and an indirect wholly-owned subsidiary of our Company
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form Service Provider at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKD”, “HK\$” or “HK dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Hong Kong Legal Counsel”	Mr. George T.Y. Hui, barrister-at-law and legal counsel advising on certain aspects of Hong Kong law
“Hong Kong Offer Shares”	the 50,000,000 Shares being initially offered by our Company at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage fee of 1%, Stock Exchange trading fee of 0.005%, and SFC transaction levy of 0.003%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering – Hong Kong Public Offering” in this prospectus
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 16 June 2014 relating to the Hong Kong Public Offering and entered into by our Company, our executive Directors, our Controlling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters
“Independent Third Part(y)(ies)”	a party or parties that is or are independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive, substantial shareholders of our Company, our subsidiaries or any of their respective associates
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters with professional and institutional investors at the Offer Price, as further described in the section headed “Structure of the Global Offering – International Placing” in this prospectus
“International Placing Agreement”	the international placing agreement relating to the International Placing to be entered into on or about 20 June 2014 by our Company, our executive Directors, our Controlling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters



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## DEFINITIONS

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“International Placing Shares”	the 450,000,000 Shares initially being offered by our Company for subscription under the International Placing together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option
“International Underwriters”	the group of underwriters led by the Sole Global Coordinator, which is expected to enter into the International Placing Agreement to underwrite the International Placing
“Ipsos”	Ipsos Hong Kong Limited, an independent market research and consulting company and an Independent Third Party
“IRD”	the Inland Revenue Department
“IRO”	the Inland Revenue Ordinance, Chapter 112 of the Laws of Hong Kong
“Jiangxi HF”	江西恒發洋參有限公司 (Jiangxi Hang Fat Ginseng Company Limited*), a company established in the PRC with limited liability on 5 August 2011, and a then indirect wholly-owned subsidiary of our Company, and which was deregistered with Nanchang Administration for Industry and Commerce on 8 May 2012
“Joint Bookrunners”	CMB International and Ping An
“Joint Lead Managers”	CMBIS and Ping An
“Latest Practicable Date”	10 June 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about 27 June 2014, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

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## DEFINITIONS

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“Long Xi”	Long Xi Group Company Limited (龍璽集團有限公司), a company incorporated in Hong Kong with limited liability on 12 May 2010, and an indirect wholly-owned subsidiary of our Company
“Madam Fu”	Ms. Fu Fung Sau, our executive Director and the mother of Mr. Matthew Yeung and Mr. Jeffrey Yeung; one of our Controlling Shareholders
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted upon the incorporation of our Company, as amended from time to time
“Metro Victor”	Metro Victor Limited (進鴻有限公司), a company incorporated in Hong Kong with limited liability on 4 August 2009, and an indirect wholly-owned subsidiary of our Company prior to our Reorganisation. As at the Latest Practicable Date, Metro Victor was no longer a subsidiary of our Group and is wholly-owned by Great Well Properties Limited, a company held by three Independent Third Parties and Mr. Matthew Yeung was a director thereof
“Mr. Jeffrey Yeung”	Mr. Yeung Wing Kong, our executive Director, a son of Madam Fu and younger brother of Mr. Matthew Yeung; one of our Controlling Shareholders
“Mr. Matthew Yeung”	Mr. Yeung Wing Yan, our executive Director, Chairman, Chief Executive Officer, founder and a son of Madam Fu and elder brother of Mr. Jeffrey Yeung; one of our Controlling Shareholders
“Offer Price”	the final Hong Kong dollar offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which the Shares are to be issued pursuant to the Global Offering, which will be not more than HK\$1.98 and is expected to be not less than HK\$1.44, to be determined as described in the section headed “Structure of the Global Offering – Pricing of the Global Offering” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option

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## DEFINITIONS

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“Over-allotment Option”	the option expected to be granted by our Company to the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to the International Placing Agreement, to require us to issue and allot up to an aggregate of 75,000,000 additional Shares at the Offer Price to, among other things, cover over-allocations in the International Placing, if any, exercisable at any time from the date of the International Placing Agreement until the 30th day from the last day for the lodging of applications under the Hong Kong Public Offering
“Ping An”	Ping An of China Securities (Hong Kong) Company Limited, a corporation licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) of the regulated activities (as defined in the SFO), acting as one of the joint bookrunners and one of the joint lead managers of the Global Offering
“PRC”, “China” or the “People’s Republic of China”	the People’s Republic of China, which for the purposes of this prospectus only (unless otherwise indicated) excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date to record and determine the Offer Price
“Price Determination Date”	on or about 20 June 2014 at which time the Offer Price is to be determined, or such later time as our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) may agree, but in any event not later than 25 June 2014
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the reorganisation arrangements we have undergone in preparation for the listing of our Shares on the Stock Exchange, as described in the sections headed “History and Reorganisation” in this prospectus and “Further Information about our Group – Group reorganisation” in Appendix V to this prospectus

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## DEFINITIONS

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“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to our Directors by our Shareholders on 9 June 2014, particulars of which are set forth in the section headed “Further Information about our Group – Resolutions of our Shareholders” in Appendix V to this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
“Share(s)”	ordinary shares in the capital of our Company with a nominal value of HK\$0.01 each
“Share Option Scheme”	the share option scheme conditionally approved by our Shareholders on 9 June 2014, the principal terms of which are summarised in the paragraph headed “Other Information – Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of Shares
“Sparkling Square”	Sparkling Square Holdings Company Limited (耀正控股有限公司), a company incorporated in the BVI with limited liability on 21 March 2011, and an indirect wholly-owned subsidiary of our Company
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about 20 June 2014 between Cervera and the Stabilising Manager
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers, as amended from time to time
“Track Record Period”	the period comprising the years ended 31 December 2011, 2012 and 2013; the phrase “during the Track Record Period”, followed by a series of figures or percentages, refers to information relating to the years ended 31 December 2011, 2012 and 2013, respectively
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement

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## DEFINITIONS

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“Union Field”	Union Field Assets Limited (聯域資產有限公司), a company incorporated in the BVI with limited liability on 21 March 2011, and an indirect wholly-owned subsidiary of our Company
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“USD”, “US\$” or “U.S. dollar(s)”	United States dollars, the lawful currency of the United States
“Wealthy Harvest”	Wealthy Harvest Enterprises Limited (富沛企業有限公司), a company incorporated in the BVI with limited liability on 11 January 2013, and an indirect wholly-owned subsidiary of our Company

*Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus are as of the Latest Practicable Date.*

*In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings ascribed to them under the Listing Rules, unless the context otherwise requires.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with “\*” is for identification purpose only.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain terms and definitions used in this prospectus in connection with our Group and business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.*

“American Ginseng”	<i>Panax quinquefolius L.</i> , a herbaceous perennial plant in the Araliaceae family, which comprises Cultivated Ginseng and Wild Ginseng
“Bulk Exporter(s)”	mainly comprise the individuals and companies who consolidate shipments of American Ginseng from Growers or Harvesters for export
“Canadian Bulk Exporter”	the Bulk Exporter located in Ontario, Canada whose principal business is to assist us with the export of Cultivated Ginseng from Canada to Hong Kong, an Independent Third Party
“Cultivated Ginseng”	the dried roots of American Ginseng grown in tilled beds under shade of artificial structures or under natural shade
“CITES”	the Convention on International Trade in Endangered Species of Wild Fauna and Flora signed in Washington D.C. on 3 March 1973, as amended from time to time
“first-level American Ginseng wholesaler(s)”	wholesalers who directly import American Ginseng from Growers, Harvesters or Bulk Exporters
“ginseng”	any one of eleven species of slow-growing perennial plants with fleshy roots, belonging to the genus <i>Panax</i> of the Araliaceae family
“ginsenosides”	a class of steroid glycosides, and triterpene saponins, found exclusively in the plant genus <i>Panax</i>
“Growers”	mainly comprise the individuals and businesses engaged in the cultivation of Cultivated Ginseng
“Harvesters”	mainly comprise the individuals and businesses engaged in the harvesting of Wild Ginseng
“Ipsos Report”	a report dated 12 June 2014 about the American Ginseng market commissioned by our Group and prepared by Ipsos Hong Kong Limited, an Independent Third Party, the details of which are set out in the section headed “Industry Overview” in this prospectus

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## GLOSSARY OF TECHNICAL TERMS

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“kg” or “KG”	Kilogram(s)
“OGGA”	the Ontario Ginseng Growers Association, which represents the producers of American Ginseng in Ontario who grow, harvest and sell American Ginseng
“Other Products”	mainly comprise dried foods, such as dried cordyceps (冬蟲夏草), cubilose (燕窩), shiitake mushroom (冬菇), black moss (髮菜), dendrobium (石斛), pseudoginseng (田七), deer tail (鹿尾), deer antler (鹿茸), Chinese angelica (歸片), abalone (鮑魚), sea cucumber (海參), scallops (元貝), shark fin (魚翅), fish maw (花膠) and saffron (藏紅花)
“processed”	in respect of American Ginseng, refers to American Ginseng that had been altered from their original raw form, primarily by cutting and sorting into different grades according to shapes, length and width. Processed American Ginseng includes main roots, slendertails or prongs, and root fibres
“Third Party Payer(s)”	third party(ies) who settled all or part of the amount payable to us on behalf of certain of our customers (debtors)
“Third Party Payments”	payments made by Third Party Payers via banks
“unprocessed”	in respect of American Ginseng, refers to American Ginseng that remain in their original raw form after washing, drying and packaging by the Growers
“Wild Ginseng”	the dried roots of American Ginseng collected from the natural habitat

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## FORWARD LOOKING STATEMENTS

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This prospectus contains forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. The risks and uncertainties facing by our Company which could affect the accuracy of forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in the industry and market in which we operate;
- products or sale points under development or planning;
- our strategies, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- our ability to reduce costs;
- the actions and developments of our competitors;
- our future financial condition and results of operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions;
- changes to regulatory and operating conditions in the industry and market in which we operate; and
- certain statements in the section headed “Financial Information” in this prospectus with respect to trend in prices, volume, operations, margins, overall market trends, risk management and exchange rates.

In some cases we use words such as “believe”, “seek”, “intend”, “anticipate”, “project”, “forecast”, “plan”, “potential”, “will”, “may”, “should”, “going forward”, “expect”, “ought to”, “could”, “would”, “wish” and other similar expressions as they relate to our Company or our management, are intended to identify forward-looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. The risks and uncertainties in



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## FORWARD LOOKING STATEMENTS

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this regard include those identified in the “Risk Factors” section in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risk and uncertainties.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*As investment in our Shares involves various risks. You should consider carefully all the information set out in this prospectus, including the risks and uncertainties described below, before making an investment in the Offer Shares. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks. The trading price of our Shares may decline due to any of these risks and uncertainties and may cause you to lose all or part of your investment. This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.*

### RISKS RELATING TO OUR BUSINESS

#### **We rely on external Growers, Bulk Exporters and other suppliers for all of our supplies of American Ginseng**

We are principally engaged in the sourcing and wholesaling of unprocessed American Ginseng, which comprises Cultivated Ginseng and Wild Ginseng. For the years ended 31 December 2011, 2012 and 2013, we derived approximately 99.6%, 89.8% and 95.2% of our revenue from the sales of American Ginseng, approximately 98.4%, 82.0% and 88.5% of our revenue was derived from sales of Cultivated Ginseng and approximately 1.2%, 7.8% and 6.7% was derived from sales of Wild Ginseng.

We do not cultivate or harvest American Ginseng and we do not have any operations in Canada or the United States. As a result, our business and results of operations rely heavily on stable and adequate supplies of Cultivated Ginseng, and to a lesser extent, on stable and adequate supplies of Wild Ginseng. We also rely on the Canadian Bulk Exporter, who possesses the relevant export licence for exporting Cultivated Ginseng from Canada, to arrange for customs formalities and shipping of unprocessed Cultivated Ginseng from Canada to Hong Kong. Whilst we have entered into a long-term exclusive agreement with the Canadian Bulk Exporter to arrange for customs formalities and shipping of unprocessed Cultivated Ginseng from Canada, we have not entered into long term supply agreements with Growers for Cultivated Ginseng, Bulk Exporters of Wild Ginseng or other suppliers. Instead, we enter into individual purchase orders with them for purchases of Cultivated Ginseng and Wild Ginseng on an order-by-order basis.

We cannot assure that these Growers, Bulk Exporters of Wild Ginseng or other suppliers will continue to supply us with stable and adequate supplies of Cultivated Ginseng and Wild Ginseng, or that the Cultivated Ginseng and Wild Ginseng will be up to our standard, in the future, or at all. In addition, if the Canadian Bulk Exporter refused to perform its services at the same level for us in the future, or were to terminate its business relationship with us entirely, there can be no assurance that we would be able to engage another Bulk Exporter to replace any such loss in a timely manner, or at all, in which case we may need to set up our own operations in Canada to arrange for the export of unprocessed Cultivated Ginseng, which may be time-consuming and economically unbeneficial to do so. Any disruption in our supplies of Cultivated Ginseng and Wild Ginseng, or in the provision of services by the Canadian Bulk Exporter, for whatever reason, could materially and adversely affect our business, financial position, results of operations and prospects.

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## RISK FACTORS

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### **We operate in a highly regulated industry**

American Ginseng is classified as an endangered species under CITES, which has been implemented by legislation in member countries, including Canada, the United States, Hong Kong and the PRC in respect of, among other things, the import and export of American Ginseng.

Below is a summary of the requirements under CITES relevant to our business:

- **Hong Kong:** We import American Ginseng into Hong Kong. For all our imports of American Ginseng, we are required to obtain a CITES certificate from the relevant authorities in the country of export and (in the case of Wild Ginseng) an import licence issued by the relevant authorities in Hong Kong. As we are involved in export of American Ginseng for some of our customers, on a case by case basis, we are required to obtain a re-export licence from the relevant authorities in Hong Kong. Our Directors confirm that we have complied with these requirements during the Track Record Period and up to the Latest Practicable Date.
- **Canada:** We purchase Cultivated Ginseng from Growers with the assistance of the Canadian Bulk Exporter. All of the relevant requirements for the export of the Cultivated Ginseng from Canada are handled by the Canadian Bulk Exporter and therefore we do not engage in the export of Cultivated Ginseng from Canada. Canadian customers who purchase American Ginseng from us handle relevant requirements for import of the American Ginseng into Canada. We are only responsible for handling the import of Cultivated Ginseng into Hong Kong, as described above. Therefore, we were not subject to CITES regulations in Canada governing the export or import of Cultivated Ginseng during the Track Record Period and up to the Latest Practicable Date. The Canadian Bulk Exporter was subject to and has represented to us that it was in compliance with CITES regulations.
- **The United States:** We purchase Wild Ginseng from Bulk Exporters located in the United States, in states including Ohio, Kentucky, Indiana and Pennsylvania. However, we do not engage in the export of American Ginseng from the United States, as the export formalities are handled by Bulk Exporters. We are responsible for handling the procedures for import of Wild Ginseng into Hong Kong. Therefore, we were not subject to the relevant CITES requirements for the export of American Ginseng in the states of Ohio, Kentucky, Indiana, Pennsylvania or under U.S. federal law during the Track Record Period and up to the Latest Practicable Date.
- **The PRC:** Pursuant to the Regulations of the PRC on Protection of Wild Plants (中華人民共和國野生植物保護條例), the other relevant PRC regulations and the regulatory practice of the competent authorities, a series of import and export certificates or approvals (including a CITES certificate (允許進出口證明書)) and performance of other statutory formalities is required for the export of American Ginseng from and the import American Ginseng into the PRC. Whilst we sell American Ginseng to the PRC based customers and purchase it from PRC based suppliers, we had no obligation to conduct and had never intervened/involved in any formalities and/or procedures with respect to the export of American Ginseng from the PRC to Hong Kong or the import of it from Hong Kong into

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## RISK FACTORS

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the PRC. All such transactions were completed in Hong Kong, and the import and export formalities are independently handled by the customers, suppliers or their designees. Therefore, we were not subject to the Regulations of the PRC on Protection of Wild Plants and other relevant PRC regulations during the Track Record Period and up to the Latest Practicable Date.

For further details of the regulations applicable to us and our business, please refer to the section headed “Regulatory Overview” and the section headed “Business – Special import/export requirements under CITES” in this prospectus.

In the event that our major customers or suppliers were to be found in violation of the relevant laws and regulations in respect of CITES, and such violations materially impacted their ability to continue to supply American Ginseng to us or purchase American Ginseng from us, our business, financial condition, results of operations and prospects could be materially and adversely affected. Furthermore, the relevant laws, regulations and rules are subject to modification and change. We cannot predict the impact that any such change would have on the American Ginseng wholesale industry generally or on our business in particular. Any legislative or regulatory change that imposes further restriction on, among other things, the growing, harvesting, import or export of American Ginseng, could disrupt our supply of American Ginseng or increase our compliance costs, which could materially and adversely affect our business, financial condition, results of operations and prospects.

### **We are subject to various risks relating to Third Party Payments**

Certain customers (our debtors) (“**Relevant Customers**”), including all of our 10 largest customers for each of the years ended 31 December 2011 and 2012, settled all or part of their payables to us through Third Party Payers for the years ended 31 December 2011 and 2012 (“**Relevant Period**”). The Third Party Payments may be subject to various risks, such as (i) possible claims from Third Party Payers for return of funds as they were not contractually indebted to our Group; (ii) possible claims from liquidators of the Third Party Payers; and (iii) money laundering risk. In the event of any claim from Third Party Payers or their liquidators or legal proceedings (whether criminal or civil) instituted or brought against us in respect of the Third Party Payments or for violation or non-compliance of laws and regulations in Hong Kong or elsewhere, we will have to spend significant financial and managerial resources to defend against such claims and legal proceedings, the financial, operational and liquidity of our business may as a result be adversely affected. Moreover, if we are involved in criminal proceedings for money laundering charge, our reputation may be adversely affected and we may face difficulty in maintaining our existing customers or attract new customers, which may cause a decrease in our operating profit. We cannot assure you that our business, financial condition, results of operations and prospects will not be materially and adversely affected by a successful claim or prosecution against us.

The Third Party Payments have completely ceased since September 2012. During the Relevant Period, there were 17 and 15 Relevant Customers who settled certain of their payables to us through Third Party Payers, respectively. The aggregate amounts settled through Third Party Payers by the Relevant Customers were approximately HK\$261.7 million and HK\$154.1 million for each of the years ended 31 December 2011 and 2012, respectively, representing approximately 58.6% and 31.3% of our revenue for each of the years ended 31 December 2011 and 2012, respectively.

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## **RISK FACTORS**

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For further details of the Third Party Payments, please refer to the sub-section headed “Business – Certain settlement arrangements through third party payers”.

### **We depend on the experience and industry expertise of our key executives and personnel**

Our continued success depends, to a significant extent, on the continued services and performance of our key executives and personnel including Mr. Matthew Yeung, our Chairman, Chief Executive Officer, founder and executive Director, Mr. Jeffrey Yeung and Madam Fu, both being our executive Directors, all of whom possess substantial experience and industry expertise in the business. Identifying quality unprocessed American Ginseng is a specialised skill, as American Ginseng is a natural product that is sorted and graded based largely on subtle physical characteristics. It requires abundant experience to properly judge the value and quality of American Ginseng. There is presently no uniform industry standard for the grading of American Ginseng, as standards vary from location to location. The knowledge of grading American Ginseng has been traditionally passed down from generation to generation by apprenticeship. Therefore, having industry experience is a significant factor for success in the industry. Further information in relation to Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu and our other Directors and senior management are set out in the section headed “Directors and Senior Management” in this prospectus. There is no assurance that we will be able to retain the current members of the management team or recruit additional competent personnel for our future development. If any member of our management team ceased to be involved in our business operations and if we were subsequently unable to recruit replacement personnel, our business, financial condition, results of operations and prospects could be materially and adversely affected.

### **We derive a significant portion of revenue from our five largest customers**

Our ability to maintain close and mutually beneficial relationships with our customers is important to our ongoing growth and profitability. For the years ended 31 December 2011, 2012 and 2013, sales to our five largest customers in aggregate accounted for approximately 76.4%, 63.5% and 66.5% of our revenue, and sales to our largest customer, which was the same customer in the years ended 31 December 2011 and 2012 and a different customer in the year ended 31 December 2013, accounted for approximately 27.6%, 15.3% and 26.0% of our revenue, respectively. We have not entered into any long term sales contracts with any of our customers and instead the terms of each transaction are negotiated on a deal by deal basis. If we are unable to maintain our business relationships with our major customers or, if a number of them encounter difficulties in their operations and reduce or cease their business relationships with us, our business, financial condition, results of operations and prospects could be materially and adversely affected.

### **The availability of American Ginseng could be affected by weather conditions**

The cultivation of Cultivated Ginseng as well as the growth of Wild Ginseng are subject to natural conditions which are beyond our control. In the event of unfavourable weather conditions, the quantity or quality of supplies of American Ginseng available to us could be reduced. If we are unable to secure alternative supplies of American Ginseng, our business, financial position, results of operations and prospects could be materially and adversely affected.

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## RISK FACTORS

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### **Our business and profitability may be materially and adversely affected by fluctuations in prices of American Ginseng**

Our business and profitability may be affected by fluctuations in prices of American Ginseng. Factors affecting prices of American Ginseng include, among other things, availability of supply, weather conditions and market conditions. Our operations may be vulnerable to changes in availability and prices of American Ginseng. For the years ended 31 December 2011, 2012 and 2013, cost of sales of American Ginseng accounted for approximately 99.6%, 88.2% and 93.9% respectively, of our total cost of sales during those periods. If the market prices of American Ginseng fail to timely respond to the change of prices of American Ginseng purchased from Growers or Bulk Exporters, we may not be able to pass on the increase in the prices of American Ginseng to our customers and may need to sell our products at lower prices in order to maintain our market share and the relationship with our customers. An increase in prices of American Ginseng supplies that we are unable to pass through to our customers will increase our cost of goods sold and negatively impact our profit margin. We can give no assurances that future increases in prices of American Ginseng or changes in supplies of American Ginseng will not materially and adversely affect our business, financial condition, results of operations or prospects.

### **We may not be successful in effectively and efficiently implementing our business plans and we may not achieve our desired results from the implementation of such plans**

We plan to expand our business in order to capture market opportunities by strengthening our purchasing power to source quality American Ginseng from Growers and Bulk Exporters, continuing our focus on development of our customer base around the world, enhancing brand image and promotion of the use of American Ginseng for health conscious consumption, and diversify product offerings and expand our retail network. Additional expenditures may also be required in the future for our increased need for working capital as our operation grows. We anticipate that our future expansion will be financed primarily by the proceeds from the Global Offering as well as cash from operating and financing activities. However, the proceeds from the Global Offering and cash from our operating and financing activities may not be sufficient to fund all of our future business plans. Our ability to obtain external financing in time or on terms acceptable to us depends on various factors, such as our financial condition, operating results, cash flow, share price and other factors, some of which are beyond our control. If we fail to obtain external financing in a timely manner, on terms acceptable to us or at all, we may need to raise funds through the issuance of new equity or debt securities. In the event we issue new equity securities, the percentage shareholding of existing shareholders may be diluted. Issuance of debt securities, on the other hand, may impose debt covenants which may limit our ability to develop our business and obtain other financing. In addition, in either case, we may incur a higher financing cost than our current level. In such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

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## **RISK FACTORS**

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### **We may fail to successfully implement our expansion strategy**

Our Directors anticipate that further expansion of our business operations will be required in order to capitalise on the potential growth opportunities in the American Ginseng wholesale industry. Such expansion could place a strain on our management and financial resources. We cannot assure you that our personnel, systems, procedures and controls will be adequate to implement our business plans or support our future growth. In order to implement our expansion strategy and manage the expected growth of our operations, we may be required to recruit more key personnel in the future. In addition, we may be required to improve our existing and/or adopt new management, operational and financial systems, procedures and controls. All these measures will result in additional costs that could place a burden on our financial resources. Additionally, if we are unable to obtain additional funds when required, we may not be able to finance our expansion plans. Our failure to implement our expansion strategy, or manage our growing business or enlarged operations effectively could have a material and adverse effect on our results of operation, financial position and prospects.

### **Our cash flow may be affected by delay in payments by our customers**

We generally grant a credit period of 30 to 90 days to a majority of the customers of our wholesale operation. For wholesale customers which we consider creditable and will make large purchases, we may grant credit periods of up to 180 days. As at 31 December 2011 and 2012, trade receivables that were past due but not impaired amounted to approximately HK\$20.1 million and HK\$47.0 million, respectively, representing approximately 17.5% and 77.2% of our total trade receivables as at the same dates, respectively. We had no trade receivables that were past due but not impaired as at 31 December 2013. We had not provided for impairment loss for any of our trade receivables. We cannot assure you that our customers will make payment in full to us on a timely basis. Delays in receiving payments from or non-payment by our customers may put pressure on our cash flow position and our ability to meet our working capital requirements. Our liquidity and cash flows from operations may be materially and adversely affected if our collection periods lengthen further or if we encounter any material defaults of payment, or provisions for impairment, of our trade receivables from customers. Should these events occur, we may be required to obtain working capital from other sources, such as from third-party financing, in order to maintain our daily operations, and such financing from outside sources may not be available at acceptable terms or at all.

### **We had net current liabilities as at 31 December 2011 and such condition may occur after Listing**

We have been relying on a combination of funds generated from operations and short-term bank borrowings to finance our operations and expansion. As at 31 December 2011, we had net current liabilities of approximately HK\$143.4 million primarily due to bank borrowings taken for the purpose of financing our purchases of American Ginseng and financing our purchases of investment properties. Our net current liabilities position exposed us to liquidity risk. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash generated from operating activities and adequate external financing, which may not be sufficient for our future operations.

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## **RISK FACTORS**

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We may also need to obtain loan financing from financial institutions and therefore, we may have net current liabilities and a high gearing ratio in the future, which may limit our working capital for the purposes of operations or capital for our expansion plans and materially and adversely affect our business, financial condition and results of operations.

### **Fluctuations in the value of HK dollar against the currencies used in our business could affect our profitability**

Our reporting currency is Hong Kong dollars and our sales are mainly denominated in Hong Kong dollars and RMB and we receive all our trade receivables from customers in HK\$. Our purchases of Cultivated Ginseng are mainly made in CAD and our purchases of Wild Ginseng are mainly made in U.S. dollars. As a result, we incur transactional and translational foreign currency gains or losses from our operations. For the years ended 31 December 2011, 2012 and 2013, our net foreign exchange differences amounted to a gain of approximately HK\$4.8 million, a loss of approximately HK\$0.9 million and a gain of approximately HK\$6.8 million, respectively. Any future material decreases in the value of RMB or material increases in the value of CAD or U.S. dollars relative to Hong Kong dollars will increase our costs of sales relative to our revenue, and could impact our profitability, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

### **We may not be able to maintain our leading position**

We operate in a highly competitive industry. According to the Ipsos Report, the American Ginseng wholesale industry is characterised by the relative dominance of the top key players. There are also new entrants, who are mainly the younger generation, who compete by working with existing American Ginseng wholesalers to gain experience in order to set up their own American Ginseng wholesale businesses. According to the Ipsos Report, we were the largest first-level American Ginseng wholesaler in Hong Kong in terms of sales revenue and sales volume as in the years ended 31 December 2011, 2012 and 2013. Given the high level of competition within the American Ginseng wholesale industry, there is no assurance that we will be able to maintain our leading position. In the event that we lose our position as the largest first-level American Ginseng wholesaler in Hong Kong, we may face difficulties in securing supplies of quality American Ginseng from Growers, Bulk Exporters and other suppliers, and our customers may cease placing orders with us. In such event, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

### **Our financial condition and results of operations may be affected by seasonality**

There is a degree of seasonality in the American Ginseng wholesale industry. We normally purchase most of our American Ginseng at harvest season, which is usually in the last quarter of each calendar year and the first quarter of the following calendar year, while most of our sales are conducted in the first and second quarters of each calendar year. As a result, our operating results and cash flows may vary substantially from period to period and the results of any period of a year are not necessarily indicative of the results that may be achieved for the full year.



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## RISK FACTORS

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### **We may not be able to sustain growth rates similar to those we experienced during the Track Record Period, or maintain our financial performance in the future**

We experienced rapid growth during the Track Record Period. Our revenue increased from approximately HK\$446.4 million for the year ended 31 December 2011 to approximately HK\$763.0 million for the year ended 31 December 2013, representing a CAGR of approximately 30.7%. Our net profit was approximately HK\$44.4 million, HK\$32.3 million and HK\$128.6 million for the years ended 31 December 2011, 2012 and 2013, respectively.

In particular, our revenue increased by approximately 55.0% for the year ended 31 December 2013 which was mainly attributable to the rapid increase in our revenue from sales of Cultivated Ginseng by approximately 67.2% for the year ended 31 December 2013. The increase was primarily due to the increase in the average selling price of Cultivated Ginseng from approximately HK\$398.9 per kg for the year ended 31 December 2012 to approximately HK\$609.3 per kg for the year ended 31 December 2013, resulting from the constant increase in the demand for Cultivated Ginseng which led to an increase in the market price.

We cannot assure you that the demand for and selling prices of Cultivated Ginseng will maintain growth rates at the current levels or at all. We therefore cannot assure you that we will achieve growth rates similar to those achieved during the Track Record Period or be able to maintain our current revenue and profit levels in the future. You should not rely on our results of operations for any prior period as an indication of our future financial or operating performance.

### **We are exposed to the risk of sourcing counterfeit American Ginseng from suppliers**

Counterfeiting of herbal medicines occur from time to time in Hong Kong. Customers' confidence in purchasing American Ginseng from us in the future will be hindered in the event we source counterfeit American Ginseng from suppliers, which could adversely affect our business and results of operations.

For details of our quality assurance and monitoring procedures to ensure our products meet our quality control standards and the expectations and requirements of our customers, please refer to the paragraph headed "Business – Quality Management" in this prospectus.

## **RISKS RELATING TO OUR INDUSTRY**

### **Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity in relation to our products**

As the American Ginseng and Other Products that we sell are for human consumption, there is an inherent risk of injury which may result from tampering by unauthorised third parties, or product contamination or degeneration, including the presence of foreign contaminants, chemicals, substances or other agents or residues during the various stages of cultivation, processing and transportation.

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## RISK FACTORS

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Litigation and complaints from consumers or government authorities concerning quality, health or other issues may affect our industry as a whole and may cause consumers to avoid consuming American Ginseng or Other Products that we sell. More specifically, we may be the subject of class actions or other allegations in this respect. Any litigation or adverse publicity surrounding any of these allegations may negatively affect our businesses, regardless of whether the allegations are true, thereby discouraging consumers from buying our products or American Ginseng in general. In addition, litigation could result in judgments for significant damages against us. Regardless of the result of litigation, we may also incur significant litigation costs and the diversion of management time as a result of litigation.

Moreover, unfavourable studies or media reports (including those regarding the health impact of American Ginseng) may have a negative impact on the public perception of American Ginseng, whether or not the claims are accurate. We cannot guarantee that our products will not cause any health-related illnesses or injury in the future, or that we will not be subject to claims or litigation relating to such matters. If any of the above were to occur, our sales could be negatively impacted, which could have a material and adverse affect on our business, financial condition, results of operation and prospects.

### **Acts of God, acts of war, epidemics and other disasters could materially and adversely affect our business**

Our business is subject to the general and social conditions in North America, Hong Kong, the PRC and other jurisdictions in or to which our American Ginseng and Other Products that we sell are grown, produced, distributed or consumed.

Natural disasters, epidemics, acts of God and other disasters that are beyond our control could adversely affect the economy, infrastructure and livelihood of the people of such jurisdictions. Our business, results of operations and financial condition could be adversely affected if these natural disasters occur. Moreover, political unrest, wars and terrorist attacks may cause damage or disruption to us, our employees, Growers, Harvesters, Bulk Exporters, our other suppliers, our customers or the distribution channels operated by our customers, any of which could adversely affect our business, results of operations, financial condition or share price. Potential war or threat of terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict.

We cannot control the occurrence of these catastrophic events and our business operations will at the times be subject to the risks of these uncertainties.

### **We may face challenges in operating within the American Ginseng wholesale industry**

The American Ginseng wholesale industry in Hong Kong is faced with challenges, which include increase in competition and the promotion of direct imports into the PRC. According to the Ipsos Report, there has been increasing investments into the American Ginseng wholesale industry in recent years. With more entrants in the market and given the limited amount of American Ginseng harvested each year, we may face difficulties in securing adequate supplies of American Ginseng in the future. In addition, associations in the United States have been encouraging wholesalers of American

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## RISK FACTORS

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Ginseng based in the PRC to import directly from the United States. For instance, according to the Ipsos Report, Beijing Tong Ren Tang has been cooperating with Wisconsin State Agricultural Society and Ginseng Herb&Co-Op since April 2013. Beijing Tong Ren Tang agrees to sell only genuine Wisconsin American Ginseng at its 1,800 retail stores in China. The direct sourcing by the PRC-based American Ginseng wholesalers from the U.S. may pose threats to the status of Hong Kong as a leading hub for the imports and exports of American Ginseng and we cannot assure you that strong demand for American Ginseng from first-level American Ginseng wholesaler in Hong Kong like us will continue. Furthermore, while the American Ginseng wholesale industry is largely dependent on established relationship and trusts, we cannot assure you that our existing or future customers will not directly source American Ginseng from suppliers in the U.S. and Canada and continue to choose to purchase such products in Hong Kong through us or otherwise. Our revenue derived from PRC-based customers represented approximately 92.0%, 76.3% and 77.3% of our total revenue for the years ended 31 December 2011, 2012 and 2013 respectively. Any development in increasing trend for direct sourcing by PRC-based American Ginseng wholesalers from the U.S. and Canada could materially and adversely affect our business, financial condition, results of operations and prospects.

### **We are susceptible to changes in general economic conditions**

Changes in general economic conditions could significantly affect disposable income and consumer spending patterns. There are many factors affecting the level of retail consumer spending, including but not limited to, interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. The level of retail consumer spending in Hong Kong or other jurisdictions directly affects our wholesale and retail operations. If as a result of general economic recession, the disposable income of the population of Hong Kong or other jurisdictions decreases, the demand for our products could decrease, which in turn could materially and adversely affect our business, financial condition, results of operation and prospects.

### **RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES**

#### **There has been no prior public market for our Shares. The market may be volatile and liquidity may be low**

Prior to the Global Offering, there was no public market for our Shares. The initial Offer Price for the Offer Shares was the result of negotiations among our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and may differ significantly from the market price of our Shares following completion of the Global Offering. The listing of, and the permission to deal in, the Shares on the Stock Exchange does not guarantee the development of an active public market or the sustainability thereof following completion of the Global Offering. Factors such as our revenue, earning and cash flows could cause the market price of our Shares to change substantially. In addition, both the market price and liquidity of our Shares could be adversely affected by factors outside our control that are unrelated to the performance of our business, especially if the financial markets in Hong Kong experience a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Offer Price.

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## RISK FACTORS

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### **The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for shareholders**

The price at which our Shares will trade after the Global Offering will be determined by the market place, which may be influenced by many factors some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we operate;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding the American Ginseng industry and companies.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

### **Our Controlling Shareholders may take actions that are not in the best interests of our Company**

Immediately after the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), our Controlling Shareholders together will own approximately 75% of the issued share capital of our Company. As a result of their ownership of our share capital, our Controlling Shareholders will have the ability to exert significant influence over the management of our Company, including the ability to implement administrative policies, elect our Directors and appoint members of our senior management. They may take certain actions or may direct us to take actions that are not in the best interests of our Group or our minority Shareholders.

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## RISK FACTORS

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### **We rely on dividend payments from our subsidiaries for funding our dividend payments, meeting our working capital and other capital needs and servicing our indebtedness**

We are a holding company and conduct our business operations through our operating subsidiaries. Therefore, the availability of funds to us to pay dividends to our Shareholders, meet our working capital and other capital needs and service our indebtedness depends upon dividends received from our subsidiaries. If our subsidiaries incur debt or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends, meet our working capital and other capital needs and service our indebtedness will be restricted. In addition, restrictive covenants in bank credit facilities, joint venture agreements or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to make dividend payments to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders, meet our working capital and other capital needs and service our indebtedness.

### **Our dividend policy is subject to the discretion of our Directors and we may not be able to pay any dividends in the future**

Our Company has not declared or paid any dividends for the years ended 31 December 2011, 2012 and 2013. HF Hong declared and paid dividends of approximately HK\$78.5 million and HK\$61.3 million to its shareholder during the years ended 31 December 2011 and 2012, respectively. In addition, HF Ginseng Importer declared and paid a dividend of approximately HK\$50.0 million during the year ended 31 December 2012 to its shareholders. On 21 May 2014, each of HF Hong, HF Ginseng Importer, HF Importer and Hang Fat (2013) declared and paid a dividend of HK\$25 million, HK\$50 million, HK\$95 million and HK\$40 million, to their respective shareholders, respectively. All declared dividends have been fully settled.

The foregoing dividend distributions were to shareholders of our subsidiaries prior to the Global Offering only. Historical dividend distributions are not indicative of our future distribution policy and we give no assurance that dividends of similar amounts or at similar rates will be paid in the future. The amount of dividends which we may declare in the future will be subject to the discretion of our Directors depending on our results, working capital, cash position, future operations, profitability, surplus and capital requirements, as well as our general financial condition and any other factors which our Directors may consider to be relevant.

The amount of dividend that may be resolved to be paid to our Shareholders in general meeting shall not exceed the amount recommended by our Board. No dividend may be paid, and no distribution may be made, out of share premium, if to do so would render us unable to pay our debts as they fall due in the ordinary course of business.

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## RISK FACTORS

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### **Future sales or perceived sales of substantial amount of our Shares in the public market could have a material adverse effect on the prevailing market price of our Shares**

Sales of substantial amount of our Shares in the public market after completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. There will be 2,000,000,000 Shares outstanding immediately after the Global Offering, assuming the Underwriters do not exercise the Over-allotment Option and no outstanding options were exercised prior to the Latest Practicable Date. Although we and certain of our Shareholders, subject to certain exceptions, have agreed to a lock-up with the Underwriters until six months after the date of this prospectus, the Underwriters may release these securities from these restrictions at any time and such Shares will be freely tradable after the expiry of the lock-up period. Shares which are not subject to a lock-up represent approximately 25% of the total issued share capital immediately after the Global Offering (assuming no exercise of the Over-allotment Option) and will be freely tradable immediately after the Global Offering.

### **Purchasers of our Shares will experience immediate and substantial dilution as a result of the Global Offering**

Potential investors will pay a price per Share that substantially exceeds the per Share value of our tangible assets after subtracting our total liabilities and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Global Offering. As a result, if our Company were to distribute its net tangible assets to its Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

We may need to raise additional funds in the future to finance further expansion of our new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by our Shares.

### **Investors should not place undue reliance on industry and market information and statistics derived from official government publications, market data providers and other independent third party sources contained in this prospectus**

This prospectus contains information and statistics, including but not limited to information and statistics relating to the American Ginseng wholesale industry and markets. The information and statistics related to the American Ginseng wholesale industry and markets are derived from official government publications, market data providers and other independent third party sources. None of these information or statistics have been independently verified by us, or any of our affiliates or advisers, or by the Sole Sponsor, the Underwriters and their respective affiliates or advisers. We cannot ensure the accuracy of such information and statistics, and such information and statistics may not be consistent with other information publicly available or available from other sources. Investors should not place undue reliance on any information and statistics derived from official government publications, market data providers and other independent third party sources contained in this prospectus.

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## RISK FACTORS

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**Investors should read the entire prospectus carefully and should not place any reliance on any information published in press articles or other media reports without carefully considering the risks and other information contained in this prospectus**

Prior or subsequent to the publication of this prospectus, there has been or may be press and media coverage regarding us and the Global Offering, in addition to marketing materials published by us in compliance with the Listing Rules. We have not authorised any such press articles and media reports, and the financial information, projections, valuations and other forward-looking information about us contained in such unauthorised press articles and media reports may not truly reflect what is disclosed in this prospectus. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in such press articles and media reports and we do not accept any responsibility for the accuracy or completeness of such financial information, projections, valuations or other forward-looking information contained therein. To the extent that any of the information in the press articles or other media reports is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should only rely on information included in this prospectus and should not rely on any of the information in such press articles or other media reports in making their investment decisions.

**Forward-looking statements contained in this prospectus are subject to risks and uncertainties**

This prospectus contains certain statements that are forward-looking statements relating to our plans, objectives, expectations and intentions, which use forward-looking terminology such as “anticipate”, “believe”, “could”, “expect”, “estimate”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should” or “will”, “would”, “wish”, “forecast” and “potential”. Those statements include, among other things, the discussion of our growth and business strategies and expectations concerning its future operations, liquidity and capital resources. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The uncertainties in this regard include those identified in the risk factors disclosed above. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Our actual results, performance or achievements could differ materially from those discussed in this prospectus. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representatives or warranties by us that our Company’s plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. These forward-looking statements speak only as at the Latest Practicable Date.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Cap. 32 Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus or this prospectus misleading.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Applications Forms.

### **UNDERWRITING**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of our Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Global Offering is managed by the Sole Global Coordinator.

The International Placing is expected to be underwritten by the International Underwriters.

For further information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this prospectus.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date.

If, for whatever reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, the Global Offering will not become unconditional and will lapse immediately.

### **SELLING RESTRICTIONS**

Each person acquiring Offer Shares will be required to confirm, or by his acquisition of Offer Shares be deemed to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, including the Offer Shares and any Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option or any share options under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on 27 June 2014. None of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Investors should seek the advice of their stock brokers or other professional advisers for details of the settlement arrangements that may affect their rights and interests. All necessary arrangements have been made for our Shares to be admitted into CCASS.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in our Shares. None of us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employee or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of, or dealing in, our Shares.

### **SHARE REGISTER AND STAMP DUTY**

All Shares issued and to be issued pursuant to applications made in the Global Offering and any Shares to be issued upon exercise of the Over-allotment Option and the options which have been granted under the Share Option Scheme will be registered on our register of members to be maintained by our Hong Kong Branch Share Registrar in Hong Kong. Our principal register of members will be maintained by our Cayman Share Registrar in the Cayman Islands. Only Shares registered on our Company's register of members maintained in Hong Kong may be traded on the Stock Exchange.

Dealings in the Shares registered on our Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

### **PROCEDURE FOR APPLYING FOR HONG KONG OFFER SHARES**

The procedure for applying for Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Applications Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

### **EXCHANGE RATE**

In this prospectus, unless otherwise stated, certain amounts denominated in USD, CAD and RMB have been translated into HK dollars at an exchange rate of US\$1 = HK\$7.75, CAD1 = HK\$7.11, and RMB1 = HK\$1.25 for illustration purposes only. Such conversions shall not be construed as representations that amounts in USD, CAD or RMB were or may have been converted into HK dollars at such rate or any other exchange rates.

### **ROUNDING**

Certain amount and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

#### Executive Directors

Name	Residential Address	Nationality
Mr. Yeung Wing Yan (楊永仁)	Flat 3, 9/F, Block B Fontana Gardens Ka Ning Path Causeway Bay Hong Kong	Chinese
Mr. Yeung Wing Kong (楊永鋼)	Flat F, 30/F, Block 8 The Belcher's 89 Pok Fu Lam Road Hong Kong	Chinese
Ms. Fu Fung Sau (傅鳳秀)	Flat F, 30/F, Block 8 The Belcher's 89 Pok Fu Lam Road Hong Kong	Chinese

Independent non-executive Directors	Residential Address	Nationality
Mr. Wong Senta (王忠桐) <i>BBS</i>	Penthouse, Tower 1 The Caldecott 1 Caldecott Road Kowloon Hong Kong	Canadian
Mr. Kwok Lam Kwong Larry (郭琳廣) <i>BBS, JP (Note)</i>	79 Palm Drive Redhill Peninsula Tai Tam Hong Kong	Chinese
Mr. Cheung Chung Wai Billy (張仲威)	Flat D, 7/F, Block 1 Skylodge, Dynasty Heights 8 Yin Ping Road Kowloon Tong Kowloon Hong Kong	Australian

Further information in relation to each of our executive Directors and independent non-executive Directors are set out under the section headed "Directors and Senior Management" of this prospectus.

*Note:* The appointment of Mr. Kwok Lam Kwong Larry as our independent non-executive Director will take effect on the Listing Date.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Global Coordinator and Sole Sponsor</b>	CMB International Capital Limited Units 1803-4, 18/F, Bank of America Tower 12 Harcourt Road Central Hong Kong
<b>Joint Bookrunners</b>	CMB International Capital Limited Units 1803-4, 18/F, Bank of America Tower 12 Harcourt Road Central Hong Kong  Ping An of China Securities (Hong Kong) Company Limited 28/F, 169 Electric Road North Point Hong Kong
<b>Joint Lead Managers</b>	CMB International Securities Limited Units 1803-4, 18/F, Bank of America Tower 12 Harcourt Road Central Hong Kong  Ping An of China Securities (Hong Kong) Company Limited 28/F, 169 Electric Road North Point Hong Kong
<b>Co-lead Manager</b>	KGI Asia Limited 41/F, Central Plaza, 18 Harbour Road Wanchai Hong Kong
<b>Co-Managers</b>	Asian Capital (Corporate Finance) Limited Suite 1006, Bank of America Tower 12 Harcourt Road Central Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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BMI Securities Limited  
Suites 909-916, 9/F., Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

Bright Smart Securities International (H.K.) Limited  
10/F, Wing On House  
No. 71 Des Voeux Road Central  
Hong Kong

China Investment Securities International Brokerage Limited  
63/F Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

Qilu International Securities Limited  
7th Floor, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**Auditors and reporting accountants** Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
35/F, One Pacific Place  
88 Queensway, Hong Kong

**Legal advisers to our Company** *As to Hong Kong law:*  
Chiu & Partners  
40th Floor, Jardine House  
1 Connaught Place  
Hong Kong

Mr. George T.Y. Hui, Barrister-at-law  
New Chambers  
Room 1002 Dina House  
No. 11 Duddell Street  
Central, Hong Kong

*As to PRC law:*  
Commerce & Finance Law Offices  
6/F NCI Tower  
A12 Jianguomenwai Avenue  
Beijing  
PRC

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*As to Cayman Islands law:*

Conyers Dill & Pearman (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

**Legal advisers to the Sole Sponsor  
and the Underwriters**

*As to Hong Kong law:*

Orrick, Herrington & Sutcliffe  
43rd Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law:*

Jingtian & Gongcheng  
34/F, Tower 3  
China Central Place  
77 Jianguo Road  
Chaoyang District  
Beijing 100025, PRC

*As to Ohio, Pennsylvania, Kentucky, Indiana  
and U.S. federal law:*

Frost Brown Todd LLC  
One Columbus, Suite 2300  
10 West Broad Street  
Columbus OH 43215-3484  
The United States

*As to province of Ontario and Canada federal law:*

Goodmans LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 3400  
Toronto, Canada  
ON M5H 2S7

**Property valuer**

Jones Lang LaSalle Corporate Appraisal and  
Advisory Limited  
6/F, Three Pacific Place,  
1 Queen's Road East, Hong Kong

**Compliance adviser**

CMB International Capital Limited  
Units 1803-4, 18/F, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Receiving banks**

Bank of Communications Co., Ltd. Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

Standard Chartered Bank (Hong Kong) Limited  
15/F Standard Chartered Tower  
388 Kwun Tong Road, Kowloon  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands
<b>Head office, headquarter and principal place of business in Hong Kong</b>	G/F, Nam Pak Hong Commercial Centre 44 Bonham Strand West, Hong Kong
<b>Company's website address</b>	www.hangfatg.com (The information contained on the website of our Company does not form part of this prospectus.)
<b>Company secretary</b>	Ms. Yip Tak Yung, Teresa (葉德容) <i>CPA</i> 8/F, Linford Mansion 193 Hennessy Road Wanchai, Hong Kong
<b>Authorised representatives</b>	Mr. Yeung Wing Yan (楊永仁) Flat 3, 9/F, Block B Fontana Gardens Ka Ning Path Causeway Bay Hong Kong  Ms. Yip Tak Yung, Teresa (葉德容) <i>CPA</i> 8/F, Lindford Mansion 193 Hennessy Road Wanchai, Hong Kong
<b>Audit committee</b>	Mr. Cheung Chung Wai Billy (張仲威) ( <i>Chairman</i> ) Mr. Wong Senta (王忠桐) <i>BBS</i> Mr. Kwok Lam Kwong Larry (郭琳廣) <i>BBS, JP (Note)</i>
<b>Remuneration committee</b>	Mr. Wong Senta (王忠桐) <i>BBS (Chairman)</i> Mr. Yeung Wing Yan (楊永仁) Mr. Cheung Chung Wai Billy (張仲威)
<b>Nomination committee</b>	Mr. Wong Senta (王忠桐) <i>BBS (Chairman)</i> Mr. Yeung Wing Yan (楊永仁) Mr. Cheung Chung Wai Billy (張仲威)
<b>Hong Kong branch share registrar and transfer office</b>	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong

*Note:* The appointment of Mr. Kwok Lam Kwong Larry as a member of our audit committee will take effect on the Listing Date.



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## CORPORATE INFORMATION

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**Cayman Islands share registrar  
and transfer office**

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

**Principal bankers**

The Hongkong and Shanghai Banking  
Corporation Limited  
29 Queen's Road Central  
Central  
Hong Kong

China CITIC Bank International Limited  
232 Des Voeux Road  
Central  
Hong Kong

Bank of China (Hong Kong) Limited  
2-12 Queen's Road West  
Sheung Wan  
Hong Kong

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## INDUSTRY OVERVIEW

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*This section contains information derived from various sources. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, affiliates or advisers, nor any other parties involved in the Global Offering and no representation is given as to its accuracy or correctness. The information may not be consistent with information from other sources.*

*Certain information and statistics are extracted from an industry report prepared by Ipsos. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics, the same has not been independently verified, and there is no representation as to the accuracy of such statements or information. We believe, after taking reasonable care, that there have been no material adverse changes in the market information since 12 June 2014, being the date of the report issued by Ipsos, which may qualify, contradict or have an impact on the information in this section. The information and statistics may not be consistent with other information and statistics compiled within or outside Hong Kong, Canada, the United States or the PRC.*

### REPORT COMMISSIONED FROM IPSOS

We commissioned Ipsos, an independent market research and consulting company, to conduct an analysis of, and to report on, the American Ginseng market both globally and in the PRC, Hong Kong and Southeast Asia for the period from 2008 to 2016. The report prepared by Ipsos is independent from our influence. Ipsos received a total commission of HK\$458,000 for the research and preparation of the Ipsos Report. The payment of such amount was not conditional on our successful listing or on the results of the Ipsos Report.

Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos SA acquired Synovate Ltd. in October 2011. After the combination, Ipsos becomes the third largest research company in the world. Ipsos employs approximately 16,000 personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market size and market share and performs segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

The Ipsos Report includes information on the American Ginseng market such as global market demand and supply, market demand and supply in the PRC, Hong Kong and Southeast Asia, average export price, economic data on American Ginseng products, and the competitive analysis of wholesalers in the industry, which have been quoted in this prospectus. The information contained in the Ipsos Report is derived by means of data and intelligence gathering which include: (i) desk research; (ii) client consultation; and (iii) primary research by interviewing key stakeholders and industry experts, such as associations and experts and food nutrient researchers, key players and competitors, such as importers and wholesalers of American Ginseng, and producers or manufacturers and retailers of American Ginseng. According to Ipsos, this methodology guaranteed a full circle/multi-level

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## INDUSTRY OVERVIEW

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information sourcing process, where information gathered was able to be cross-referenced to ensure accuracy. The intelligence gathered by Ipsos was analysed, assessed and validated using their in-house analysis models and techniques.

Our Directors confirm that after taking reasonable care, as at the date of this prospectus, there has been no material adverse change in the market information since the date of the Ipsos Report.

The analysis in the Ipsos Report is based on the following general bases and assumptions:

- Factors taken into account in the model include inflation, export values, time lag from transportation, population growth and urbanisation.
- The global supply of American Ginseng is assumed to be stable and without shortage over the forecast period.
- There is no external shock such as natural disasters or wide outbreak of diseases to affect the global demand for and supply of American Ginseng over the forecast period.

### OVERVIEW OF THE AMERICAN GINSENG INDUSTRY

American Ginseng (*Panax quinquefolius L.*) is a herbaceous perennial plant in the Araliaceae (or ivy) family. It is perceived as being one of the best types of ginseng in terms of quality and is commonly used as a medicinal herb in Asian countries, such as Hong Kong, the PRC and Singapore, to enhance one's health or treat illness. There are increasing numbers of clinical trials being conducted by health professionals to test the effectiveness of American Ginseng in treating illnesses and enhancing the immune system in the human body.

The main producers of American Ginseng are in Canada, the United States and the PRC. American Ginseng is classified into two types: Wild Ginseng and Cultivated Ginseng. Wild Ginseng is grown in a naturally shady environment, which can be found in the eastern region of North America and has generally been sold at a much higher price than Cultivated Ginseng because of the limited supply due to historical overharvesting. Cultivated Ginseng is grown under the artificial shade by Growers and requires three to five years to grow before harvesting. After harvesting the American Ginseng from the fields or from the wild, the American Ginseng is washed and dried before being sold to authorised buyers who then export it directly to Asian markets. Some Growers also have a licence to export it to their clients directly.

Hong Kong is one of the most important shipping and receiving ports in the world for American Ginseng. American Ginseng is typically not sorted before shipping to Hong Kong. The American Ginseng is sold based on its weight and shipments may contain American Ginseng of various shapes and sizes. Sorting of American Ginseng is generally performed by resellers. The graded and sorted American Ginseng is then sold to retailers or re-exported. At the retail level, American Ginseng is typically sold in bulk form or packaged form. When retailers sell in bulk, the American Ginseng is placed in large jars for customers to choose. Once selected, the American Ginseng is placed in bags and then weighed and priced accordingly.

## INDUSTRY OVERVIEW

### DEMAND FOR AMERICAN GINSENG IN THE GLOBAL MARKET

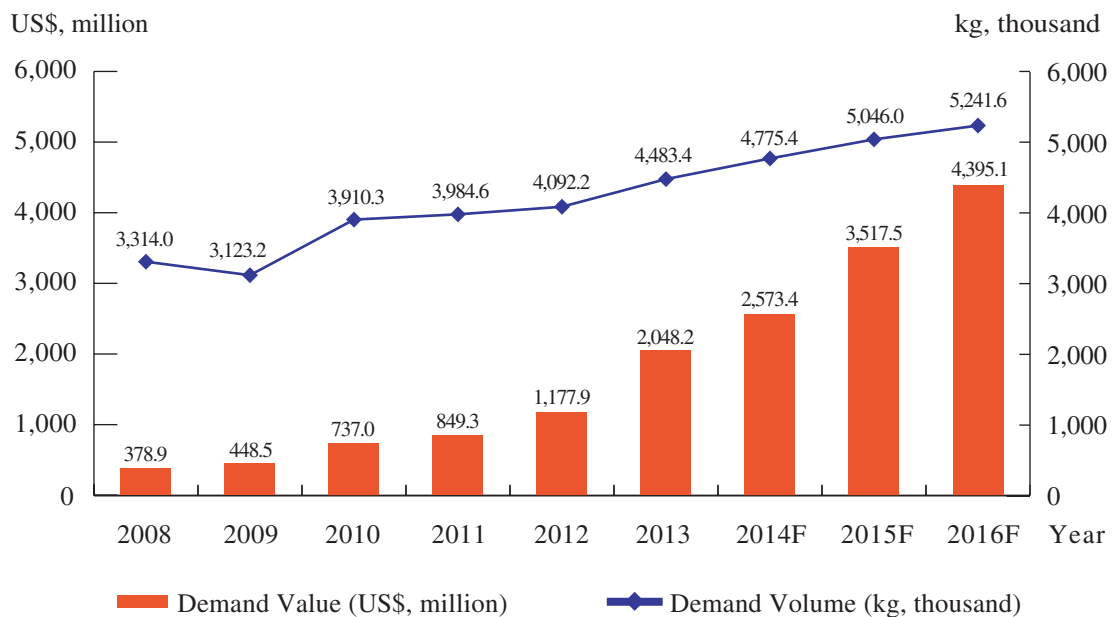
The global market demand for American Ginseng is growing both in terms of retail value and volume, and is expected to increase by a CAGR of approximately 35.9% and 5.9%, respectively, between 2008 and 2016.

The global demand for American Ginseng in terms of retail value increased by approximately 440.6%, or a CAGR of approximately 40.1%, from approximately US\$378.9 million in 2008 to approximately US\$2,048.2 million in 2013, respectively. On the other hand, the global demand for American Ginseng in terms of retail volume increased at a slower rate of approximately 35.3%, or a CAGR of approximately 6.2%, from approximately 3,314,000 kg in 2008 to approximately 4,483,400 kg in 2013. A reason for the larger increase in demand in terms of retail value is that the demand for American Ginseng has increased faster than its supply, and therefore has driven up the price.

As countries, such as the PRC, become wealthier and more health conscious, and with alternative medical practices such as traditional Chinese medicine gaining in popularity, the global demand for American Ginseng is forecasted to grow continuously. The global demand in terms of retail value is forecasted to grow by another 70.8%, or at a CAGR of approximately 30.7%, between 2014 and 2016, to reach approximately US\$4,395.1 million in 2016. In terms of retail volume, the global demand is forecasted to grow by another 9.8%, or at a CAGR of approximately 4.8% between 2014 and 2016, to reach approximately 5,241,600 kg in 2016.

The following chart sets forth the global market demand for American Ginseng in terms of retail value and volume for the periods indicated.

**Global Market Value and Volume of Demand for American Ginseng  
(including Wild Ginseng and Cultivated Ginseng) from 2008 to 2016**



*Notes: Value is calculated based on the retail level; American Ginseng includes wild and cultivated American Ginseng from China, U.S. and Canada*

*Sources: Ipsos research, interviews and analysis*

## INDUSTRY OVERVIEW

Due to the scarcity of Wild Ginseng, there are less stock available in the market, compared to Cultivated Ginseng. Hence, the market volume of Wild Ginseng has been growing at a slower rate of approximately 18.8% between 2008 and 2013, from approximately 70,100 kg in 2008 to approximately 83,300 kg in 2013, at a CAGR of approximately 3.5%. At the same time, because of the scarcity, sellers of Wild Ginseng are able to command a higher price. As a result, there was an increase in demand in terms of retail value of Wild Ginseng during the same period, from approximately US\$134.2 million in 2008 to approximately US\$723.0 million in 2013, or approximately 438.7% at a CAGR of 40.1%.

On the other hand, there was an increase in the demand for Cultivated Ginseng in terms of retail value by approximately 441.6% between 2008 and 2013, or at a CAGR of approximately 40.2%, while the demand in terms of retail sales volume increased by approximately 35.6%, or at a CAGR of approximately 6.3%, in the same period.

The following table sets forth the breakdown of global market demand for American Ginseng in terms of retail value and volume for the periods indicated.

**Global Market Value and Volume of Demand for American Ginseng  
(breakdown of Wild Ginseng and Cultivated Ginseng) from 2008 to 2016**

Year	Wild Ginseng			Cultivated Ginseng			Total American Ginseng		
	Value US\$ million	Volume kg, thousand	Value per Kg US\$	Value US\$ million	Volume kg, thousand	Value per Kg US\$	Value US\$ million	Volume kg, thousand	Value per Kg US\$
2008	134.2	70.1	1,914.0	244.7	3,243.9	75.4	378.9	3,314.0	114.3
2009	158.0	61.9	2,551.9	290.6	3,061.3	94.9	448.6	3,123.2	143.6
2010	272.1	87.2	3,120.6	464.9	3,823.1	121.6	737.0	3,910.3	188.5
2011	217.6	52.3	4,160.8	631.7	3,932.3	160.6	849.3	3,984.6	213.1
2012	401.2	67.5	5,944.0	776.7	4,024.7	193.0	1,177.9	4,092.2	287.8
2013	723.0	83.3	8,680.1	1,325.2	4,400.1	301.2	2,048.2	4,483.4	456.8
2014F	935.9	86.3	10,850.1	1,637.5	4,689.1	349.2	2,573.4	4,775.4	538.9
2015F	1,292.2	88.9	14,529.7	2,225.3	4,957.1	448.9	3,517.5	5,046.0	697.1
2016F	1,501.7	84.2	17,831.9	2,893.4	5,157.4	561.0	4,395.1	5,241.6	838.5

*Notes: Value is calculated based on the retail level; American Ginseng includes American Ginseng from China, U.S. and Canada.*

*Sources: Ipsos research, interviews and analysis.*

## INDUSTRY OVERVIEW

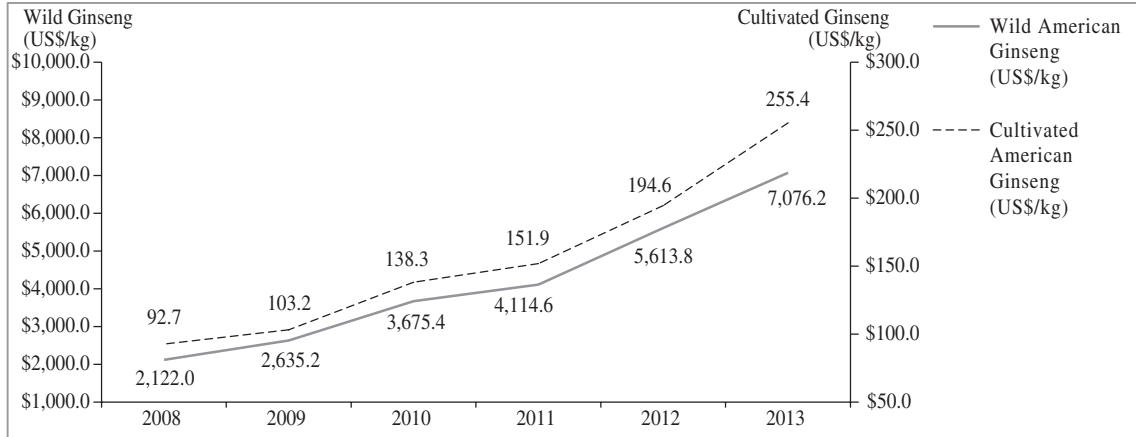
### Market Value and Volume of Demand for American Ginseng (including wild and cultivated) in China, Hong Kong, and Southeast Asia from 2008 to 2016

Year	China		Hong Kong		Southeast Asia	
	Value (US\$ million)	Volume (Kg, thousand)	Value (US\$ million)	Volume (Kg, thousand)	Value (US\$ million)	Volume (Kg, thousand)
2008	347.7	2,631.3	4.5	31.0	7.7	53.9
2009	413.2	2,479.8	4.8	29.2	8.1	50.8
2010	679.4	3,104.8	7.7	36.5	13.1	63.6
2011	784.5	3,335.6	8.3	37.4	14.1	65.2
2012	1,118.4	3,562.5	11.8	38.1	20.6	67.8
2013	1,856.8	3,991.8	21.4	47.4	26.7	60.4
2014F	2,320.1	4,341.5	21.4	50.1	26.0	62.2
2015F	3,441.3	4,683.9	34.7	52.4	41.5	64.0
2016F	4,302.1	4,965.4	42.6	54.7	50.4	65.9

*Notes:* Value and volume are calculated based on the retail level in the respective market. American Ginseng includes American Ginseng from China, U.S. and Canada

*Sources:* Ipsos interviews, research and analysis.

### Average retailed price of wild and cultivated ginseng in Hong Kong



*Notes:* Value is calculated based on the retail level; American Ginseng includes American Ginseng from China, U.S. and Canada

*Sources:* Ipsos interviews, research and analysis

## INDUSTRY OVERVIEW

### AVERAGE EXPORT PRICE OF AMERICAN GINSENG

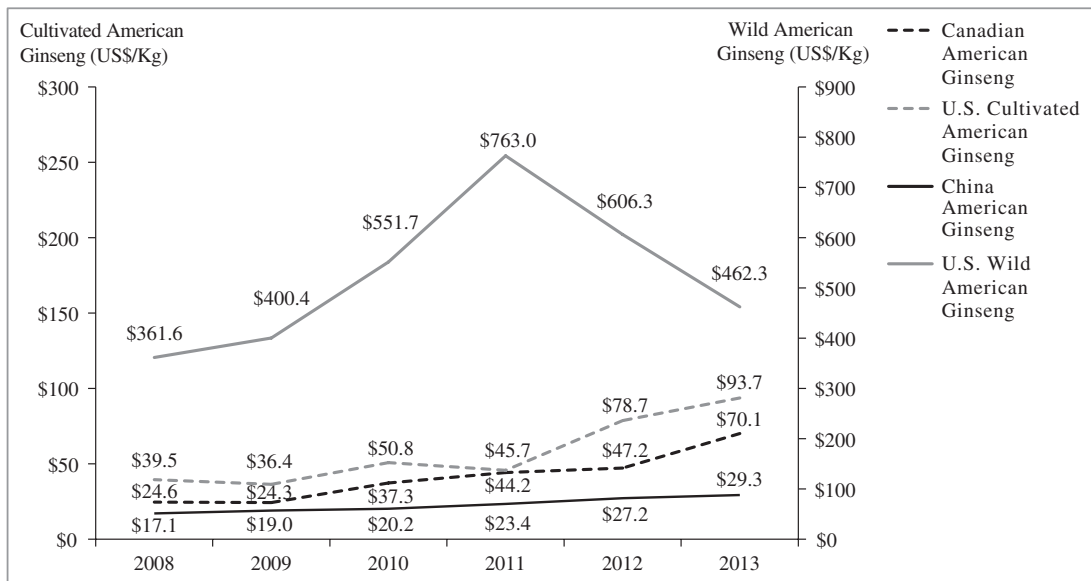
The export price of American Ginseng to Hong Kong differs depending on the origin of the root and whether it is Wild Ginseng or Cultivated Ginseng. The export price is also largely dependent on the harvest yield. For the period between 2008 and 2013, the price per kg of Wild Ginseng experienced an increase of approximately 27.8%, at a CAGR of approximately 5.0%. On the other hand, the price per kg of Cultivated Ginseng grown in the United States increased by approximately 137.2%, at a CAGR of approximately 18.8%, from 2008 to 2013. As a result, the gap between the export prices of Wild Ginseng and Cultivated Ginseng grown in the United States in 2013 widened by approximately 14.4%, from approximately US\$322.1 per kg in 2008 to approximately US\$368.6 per kg in 2013.

Due to scarcity and the greatest perceived medicinal value, Wild Ginseng commanded the highest export price between 2008 and 2013, and reached approximately US\$462.3 per kg in 2013. In 2013, Cultivated Ginseng grown in the United States was the second most expensive, and reached the export price of approximately US\$93.7 per kg. This is mostly due to the higher production cost involved in cultivating and harvesting American Ginseng in the United States. In 2013, the export price of Cultivated Ginseng grown in Canada was approximately US\$70.1 per kg.

While the export price of Wild Ginseng has experienced an increasing trend, the export price of Cultivated Ginseng has been fluctuating. However, the export price of Cultivated Ginseng is generally able to rebound within the next one or two years. The export prices of Wild Ginseng, Cultivated Ginseng grown in the United States and Cultivated Ginseng grown in Canada increased in 2013 and reached approximately US\$462.3, US\$93.7 and US\$70.1 per kg, respectively.

The following chart sets forth the average export price for American Ginseng for the periods indicated.

**Average Export Price for American Ginseng from 2008 to 2013**



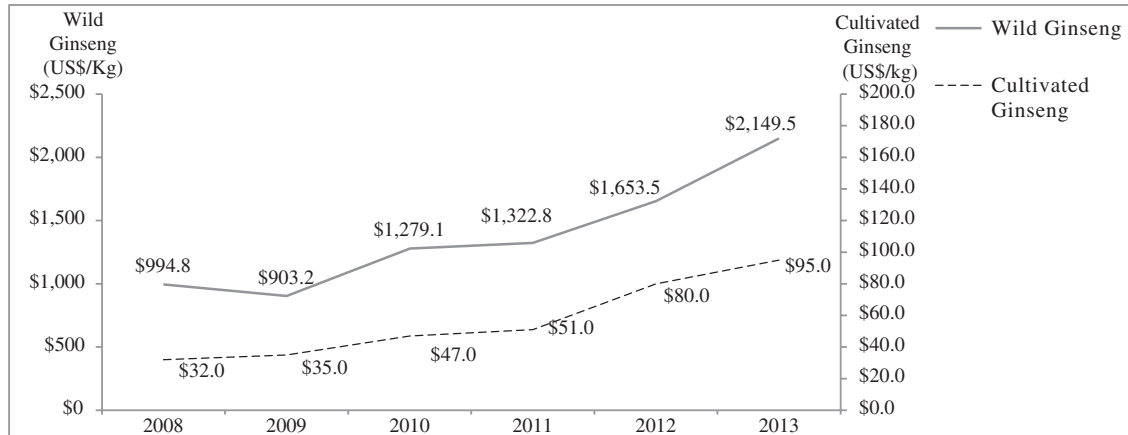
Note: (1) Export price is the unit price value calculated from the value of export divided by the quantity of export.  
 (2) The export prices refer to the blended export prices for both American Ginseng roots and other forms of American Ginseng, such as American Ginseng powder, American Ginseng fibers and sliced American Ginseng, etc.

Sources: Statistics Canada; U.S. Census Bureau; General Administration of Customs of the PRC; Ipsos research and analysis

## INDUSTRY OVERVIEW

While the above illustrated the export price trend for both processed and unprocessed form of Wild Ginseng and Cultivated Ginseng, the following chart sets forth the average purchase price of Wild Ginseng and Cultivated Ginseng for wholesalers in Hong Kong for the periods indicated:

**Average Purchase Price of Wild Ginseng and Cultivated Ginseng for wholesalers in Hong Kong from 2008 to 2013**



*Note: Average purchase price of American Ginseng for wholesalers in Hong Kong refers to the average prices the wholesalers in Hong Kong pay for sourcing their American Ginseng.*

*Source: Ipsos research and analysis*

The average purchase price of Cultivated Ginseng for the first quarter of 2014 increased to US\$130 per kg, which is approximately 36.8% higher than the average purchase price of Cultivated Ginseng for the year 2013.

On the other hand, the average purchase price of Wild Ginseng for the first quarter of 2014 increased to US\$2,800 per kg, which is approximately 30.3% higher than the average purchase price of Wild Ginseng for the year 2013.

### GLOBAL MARKET SUPPLY OF AMERICAN GINSENG

The supply of American Ginseng is to a large extent affected by the weather. In particular, the production of American Ginseng in North America has decreased drastically in 2008 due to unfavourable weather conditions.

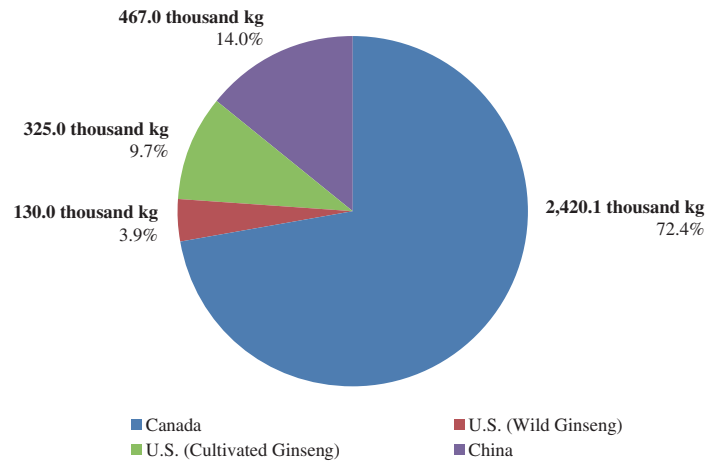
In 2013, the global supply of American Ginseng was approximately 3,342,100 kg. Canada was the largest producer of American Ginseng and accounted for approximately 72.4% of the global supply in 2013. Ontario is a major producer of American Ginseng within Canada. The United States accounted for approximately 13.6% of the global supply of American Ginseng in 2013, of which 90% to 95% of the American Ginseng was produced in Wisconsin. Only 19 states in the United States are permitted to export Wild Ginseng, namely: Alabama, Arkansas, Georgia, Illinois, Indiana, Iowa, Kentucky, Maryland, Minnesota, Missouri, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Vermont, Virginia, West Virginia and Wisconsin. Production of American Ginseng in the PRC accounted for approximately 14.0% of the total global supply in 2013.



## INDUSTRY OVERVIEW

The following chart sets forth the global supply of American Ginseng by volume in 2013.

**Global Supply of American Ginseng in 2013**

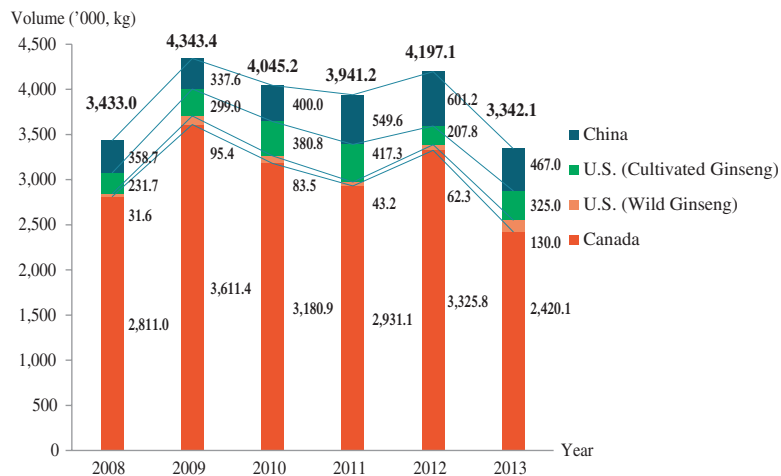


Sources: *United States Department of Interior; United States Department of Agriculture; Ipsos interviews and analysis.*

The global supply of American Ginseng as a whole decreased between 2008 and 2013, at a CAGR of approximately -0.5%. Canada was the largest producer of American Ginseng, producing on average about 70% to 80% of the world's total supply between 2008 and 2013. However, Canada's share of supply as a proportion to the global supply has decreased since 2008, from around 81.9% in 2008 to around 72.4% in 2013. The United States and the PRC accounted for about 13.6% and about 14.0% of the world's total supply of American Ginseng in 2013, respectively.

The following chart sets forth the amount of American Ginseng supply in terms of volume for the periods indicated.

**American Ginseng Supply by Volume from 2008 to 2013**



Sources: *Statistics Canada; U.S. Census Bureau; U.S. Fish and Wildlife Service; General Administration of Customs of the PRC; Ipsos research and analysis.*

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## INDUSTRY OVERVIEW

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### ROLE OF HONG KONG IN THE SUPPLY CHAIN OF AMERICAN GINSENG

Hong Kong is one of the most important American Ginseng shipping and receiving port in the world. In 2013, around 90.3% of Canada's American Ginseng exports, 45.9% of the United States' American Ginseng exports and 78.7% of China's American Ginseng exports were destined to Hong Kong.

Hong Kong's important role in the distribution of American Ginseng is explicable by its import and export policies. As a free port, Hong Kong does not levy any customs tariff on imports and exports of American Ginseng. There is also no tariff quota or surcharge, or value added and general services taxes for American Ginseng imported into Hong Kong.

In comparison, the import tariff for American Ginseng originating in countries which enjoy most-favoured-nation-treatment in China from Hong Kong into the PRC was 7.5% and the value-added tax was 13%. According to the Customs of China, American Ginseng is categorised as a drug for the purpose of importation, therefore an importer of American Ginseng needs to obtain a Drug Import Note (進口藥材批件) from the State Food and Drug Administration and other statutory formalities. In addition, American Ginseng that is to be imported into the PRC needs to go through a series of stringent inspections at the port.

### COMPETITIVE ANALYSIS OF THE AMERICAN GINSENG MARKET

#### Competitive Landscape

In the year ended 31 December 2013, sales of the top five wholesalers accounted for approximately 75.9% of all American Ginseng in Hong Kong in terms of volume and 93.9% in terms of value. Competition remains high in the American Ginseng industry in Hong Kong as the market is dominated by the top key players and new entrants are joining the industry. With more players into the industry, it may be a challenge to secure adequate supplies of American Ginseng in the future. Nevertheless, as consumers are becoming wealthier, coupled with an increase in the awareness to health, the demand for health related products, such as American Ginseng, will continue to increase.

The following charts set out the top five American Ginseng first-level wholesalers in Hong Kong for the periods indicated.

## INDUSTRY OVERVIEW

### Top 5 American Ginseng first-level Wholesalers in Hong Kong in 2011

Rank	Name of Company	Headquarter Location	Revenue in 2011 <i>HK\$ million</i>	Share of Revenue in 2011 <i>%</i>	Sales Volume in 2011 <i>kg, thousand</i>	Share of Sales Volume in 2011 <i>%</i>
1	Our Group	Hong Kong	444.5	45.1	1,060.3	38.2
2	Company A	Hong Kong	188.5	19.1	542.3	19.5
3	Company B	Hong Kong	121.1	12.3	365.2	13.1
4	Company C	Hong Kong	51.7	5.2	134.7	4.9
5	Company D	Hong Kong	36.6	3.7	98.2	3.5
	Others		<u>143.4</u>	<u>14.6</u>	<u>576.8</u>	<u>20.8</u>
	Total		<u><u>985.8</u></u>	<u><u>100.0</u></u>	<u><u>2,777.5</u></u>	<u><u>100.0</u></u>

*Notes: (1) Revenues are based on financial year of 1 January to 31 December; i.e. 1 January 2011 to 31 December 2011; (2) The figures above only count for the sales activities of American Ginseng; (3) The figures above are all collected from interviews; and (4) First-level wholesalers are the wholesalers directly import American Ginseng from Growers, Harvesters or Bulk Exporters and wholesale to their customers.*

*Sources: Ipsos interviews and analysis.*

### Top 5 American Ginseng first-level Wholesalers in Hong Kong in 2012

Rank	Name of Company	Headquarter Location	Revenue in 2012 <i>HK\$ million</i>	Share of Revenue in 2012 <i>%</i>	Sales Volume in 2012 <i>kg, thousand</i>	Share of Sales Volume in 2012 <i>%</i>
1	Our Group	Hong Kong	442.4	38.0	1,014.8	35.0
2	Company A	Hong Kong	222.0	19.1	557.1	19.2
3	Company B	Hong Kong	130.8	11.3	361.9	12.5
4	Company C	Hong Kong	59.3	5.1	135.8	4.7
5	Company D	Hong Kong	40.1	3.4	101.9	3.5
	Others		<u>268.1</u>	<u>23.1</u>	<u>728.1</u>	<u>25.1</u>
	Total		<u><u>1,162.7</u></u>	<u><u>100.0</u></u>	<u><u>2,899.6</u></u>	<u><u>100.0</u></u>

*Notes: (1) Revenues are based on financial year of 1 January to 31 December; i.e. 1 January 2012 to 31 December 2012; (2) The figures above only count for the sales activities of American Ginseng; (3) The figures above are all collected from interviews; and (4) First-level wholesalers are the wholesalers directly import American Ginseng from Growers, Harvesters or Bulk Exporters and wholesale to their customers.*

*Sources: Ipsos interviews and analysis.*

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## INDUSTRY OVERVIEW

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### Top 5 American Ginseng first-level Wholesalers in 2013

Rank	Name of Company	Headquarter Location	Revenue in 2013 <i>HK\$ million</i>	Share of Revenue in 2013 <i>%</i>	Sales Volume in 2013 <i>kg, thousand</i>	Share of Sales Volume in 2013 <i>%</i>
1	Our Group	Hong Kong	725.9	55.2	1,110.9	36.4
2	Company A	Hong Kong	252.4	19.2	584.0	19.1
3	Company B	Hong Kong	144.6	11.0	375.2	12.3
4	Company C	Hong Kong	67.1	5.1	141.9	4.6
5	Company D	Hong Kong	44.7	3.4	107.0	3.5
Others			79.9	6.1	734.9	24.1
Total			1,314.6	100.0	3,053.9	100.0

*Notes: (1) Revenues are based on financial year of 1 January to 31 December; i.e. 1 January 2013 to 31 December 2013; (2) The figures above only count for the sales activities of American Ginseng; (3) The figures above are all collected from interviews; and (4) First-level wholesalers are the wholesalers directly import American Ginseng from Growers, Harvesters or Bulk Exporters and wholesale to their customers.*

*Sources: Ipsos interviews and analysis.*

### Barriers to entry

According to the Ipsos Report, the main barrier to the American Ginseng wholesale industry is whether one possesses sufficient knowledge about American Ginseng. For example, it is vital for an American Ginseng wholesaler to be able to tell the difference between real and fake American Ginseng, or American Ginseng which are of high or low quality.

In addition, the American Ginseng wholesale industry is largely dependent on established relationships and trusts, which may be a barrier to new entrants. According to the Ipsos Report, retailers of American Ginseng prefer to work with wholesalers whom they trust and can rely on, and many of them have long established relationships with their wholesalers.

### Future opportunities and challenges

Traditional Chinese medicine, such as American Ginseng, has become increasingly popular in recent years. With the increase in awareness of health benefits of American Ginseng, it will be an opportunity for wholesalers in Hong Kong.

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## INDUSTRY OVERVIEW

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However, there have been increasing investments into the American Ginseng wholesale industry in the past few years, which not only poses challenges in terms of increase in competition, but also a challenge in terms of access to supplies, given that the supply of American Ginseng is limited. Furthermore, some American Ginseng associations are encouraging wholesalers in the PRC to import directly from the United States, instead of going through Hong Kong. This may also pose a challenge to American Ginseng wholesalers in Hong Kong in the future. For instance, Beijing Tong Ren Tang has been cooperating with Wisconsin State Agricultural Society and Ginseng Herb&Co-Op since April 2013. Beijing Tong Ren Tang agrees to sell only genuine Wisconsin American Ginseng at its 1,800 retail stores in China. The direct sourcing by the PRC-based American Ginseng wholesalers from the U.S. may pose threats to the status of Hong Kong as a leading hub for the imports and exports of American Ginseng.

### **Key Advantage of our Group over Competitors**

According to the Ipsos Report, we have been the largest first-level wholesaler of American Ginseng in Hong Kong in the years ended 31 December 2011, 2012 and 2013 in terms of both sales revenue and sales volume. Having been in the American Ginseng wholesale industry for over 20 years, we have established close relationship with Growers, Bulk Exporters and other suppliers which enable us to procure American Ginseng at a competitive price. According to the Ipsos Report, the average purchase price for Wild Ginseng for wholesalers in Hong Kong for 2013 was approximately USD2,149.5 per kg (equivalent to approximately HK\$16,658.6 per kg), which is approximately 13.7% higher than our average purchase cost of Wild Ginseng of approximately HK\$16,116.0 per kg. Our Directors believe that our success primarily stems from our well established relationships with Growers, Bulk Exporters, our other suppliers and customers. In addition, we are located in Hong Kong, the key hub for the wholesale and distribution of American Ginseng as it benefits from free trade regulations.

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## REGULATORY OVERVIEW

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This section sets out an overview of Hong Kong, Canadian and U.S. laws, regulations and rules applicable, though not exhaustive, to our Group's business.

### OVERVIEW OF LAWS AND REGULATIONS OF HONG KONG

#### Protection of Endangered Species of Animals and Plants Ordinance

Both China and Hong Kong are parties to the CITES. The Protection of Endangered Species of Animals and Plants Ordinance (Chapter 586 of the Laws of Hong Kong) (the "**Protection of Endangered Species Ordinance**") came into effect on 1 December 2006 to give effect to the CITES in Hong Kong. The importation, introduction from the sea, exportation, re-exportation and possession or control of specified endangered species of animals and plants, along with parts and derivatives of those species, are thus regulated under the Protection of Endangered Species Ordinance. Schedule 1 to the Protection of Endangered Species Ordinance sets out a list of species and categorises them into different appendices which are regulated with varying degrees of control under the Protection of Endangered Species Ordinance. American Ginseng is included as an "Appendix II species".

Under the Protection of Endangered Species Ordinance, an importer may import into Hong Kong from any other jurisdiction (including the PRC) Wild Ginseng only if the importer (i) obtains an import licence issued by the Director of Agriculture, Fisheries and Conservation and produces such import licence to an authorised officer of the Customs and Excise Department; and (ii) produces and surrenders the CITES permit issued by the relevant authorities of the exporting country to the authorised officer, for retention and cancellation.

On the other hand, in relation to Cultivated Ginseng, under the Protection of Endangered Species Ordinance, an importer may import into Hong Kong from any other jurisdiction (including the PRC) Cultivated Ginseng if (i) the importer produces the CITES permit issued by the relevant authorities of the exporting country to an authorised officer of the Customs and Excise Department; (ii) an authorised officer has inspected the Cultivated Ginseng to compare it with the particulars on the CITES permit and is satisfied that the particulars tally; and (iii) the importer surrenders to the authorised officer the CITES permit for retention and cancellation.

Prior to the re-exportation of American Ginseng out of Hong Kong, the re-exporter shall, pursuant to the Protection of Endangered Species Ordinance, apply for a re-export licence from the Director of Agriculture, Fisheries and Conservation, which may be issued with or without conditions as the director considers appropriate. Any such re-export licence obtained by the re-exporter shall be produced to an authorised officer of the Customs and Excise Department before the American Ginseng is re-exported from Hong Kong.

The Protection of Endangered Species Ordinance also regulates the possession or control of "Appendix II species", such as American Ginseng. A person may have in his or her possession or under his or her control American Ginseng, if he or she is issued a possession or control licence by the Director of Agriculture, Fisheries and Conservation. Alternatively, he or she may have in his or her possession or under his or her control dried American Ginseng if he or she proves by documentary evidence or otherwise that the American Ginseng in question is not a live plant of wild origin and it is not a species listed under Appendix I to Schedule 1 to the Protection of Endangered Species Ordinance. All the American Ginseng that we traded during the Track Record Period is neither live plant of wild origin nor a species listed under Appendix I.

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## REGULATORY OVERVIEW

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Under the Protection of Endangered Species Ordinance, a person may import, re-export or have in his or her possession or under his or her control dried American Ginseng in transit if, upon landing of the American Ginseng in Hong Kong, the person produces to an authorised officer a CITES permit issued by the relevant authorities of the exporting country in respect of the American Ginseng.

As stipulated in the Protection of Endangered Species Ordinance, a person commits an offence if he or she imports Wild Ginseng without an import licence or re-exports American Ginseng (whether Wild Ginseng or Cultivated Ginseng) without a re-export licence. A person guilty of an offence above is liable on conviction to a fine and imprisonment. Higher penalties can be imposed by the court if the offence is committed for commercial purposes. Other than American Ginseng, three shark species are also protected under the Protection of Endangered Species Ordinance as “Appendix II species”. Thus, similar to American Ginseng, a person may have in his or her possession or under his or her control such shark species (or derivatives of such shark species like shark fins) if he or she is issued a possession or control licence by the Director of Agriculture, Fisheries and Conservation. Alternatively, he or she may have in his or her possession or under his or her control such shark species if he or she proves by documentary evidence or otherwise that the shark species in question are not live animals of wild origin and they are not species listed under Appendix I to Schedule 1 to the Protection of Endangered Species Ordinance. We do not import shark fins. All of the shark fins that we sold in the Track Record Period are neither live animals of wild origin nor species listed under Appendix I to Schedule 1 to the Protection of Endangered Species Ordinance. We only purchased shark fins from suppliers based in Hong Kong and sell them on an ad hoc basis to secondary wholesalers and retailers who are customers of our American Ginseng. The revenue from sales of shark fins was nil, approximately HK\$0.2 million and nil, respectively, for the years ended 31 December 2011, 2012 and 2013. The revenue from sales of shark fins in 2012 contributed approximately 0.05% of our total sales revenue for the year.

For completeness, further changes to the CITES were approved in March 2013, as a result of which five other shark species, would become protected as “Appendix II species”. If and when such changes are given effect in Hong Kong through amendments to the Protection of Endangered Species Ordinance, the regulations therein will extend to the five shark species as well.

As advised by our Hong Kong Legal Counsel, for the import, export or re-export of American Ginseng, our Group’s procedures for importing, exporting or re-exporting American Ginseng is in compliance with the Protection of Endangered Species Ordinance. Our Directors confirm that up to the Latest Practicable Date, no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of the Protection of Endangered Species Ordinance.

### **Import and Export Ordinance**

The Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) is an ordinance which provides for the regulation and control of, amongst other things, the import and export of articles into or out of Hong Kong.

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## REGULATORY OVERVIEW

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American Ginseng is currently not a “prohibited article” under the provision of the Import and Export Ordinance and its subsidiary legislations. Thus, a licence issued by the Director-General of Trade and Industry for permission of importation and exportation of American Ginseng is not required under the Import and Export Ordinance.

However, according to the Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong), a subsidiary legislation of the Import and Export Ordinance, an importer of American Ginseng is under an obligation to lodge with the Customs and Excise Department an accurate and complete import declaration through a specified “Government Electronic Trading Services” provider. Further, a similar obligation is imposed on an exporter of American Ginseng by the same Regulations. Therefore, we are obliged to lodge import and export declarations with the Customs and Excise Department under the Import and Export (Registration) Regulations. As advised by our Hong Kong Legal Counsel, for the import of American Ginseng, our Group’s procedure for importing, exporting or re-exporting American Ginseng is in compliance with the Import and Export (Registration) Regulations. As confirmed by our Directors, no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of any relevant Hong Kong laws and regulations in respect of our import of American Ginseng into Hong Kong up to the Latest Practicable Date.

### **Food Safety Ordinance**

The Food Safety Ordinance (Chapter 612 of the Laws of Hong Kong) (the “**Food Safety Ordinance**”) came into force on 1 August 2011. The purposes of the Food Safety Ordinance are, amongst other things, to establish a registration scheme for food importers and food distributors; to require the keeping of records by persons who acquire, capture, import or supply food; and to enable food import controls to be imposed. Certain of our products (including cubilose, black moss, abalone, scallop, sea cucumber, shark fin and fish maw) fall within the scope of the Food Safety Ordinance.

Food importers and food distributors (persons who, in the course of business, supply food in Hong Kong by wholesale) must register with the Director of Food and Environmental Hygiene. In considering an application for registration, the Director of Food and Environmental Hygiene would take into account of factors laid out in the Food Safety Ordinance, such as the applicant’s history of any past contravention in the period of 12 months immediately before the application. Moreover, pursuant to the Food Safety Ordinance, the Director of Food and Environmental Hygiene may revoke a registration if the registered person has repeatedly contravened the Food Safety Ordinance or if the registered person has (in the case of a natural person) died or (in the case of a corporate person) been wound up.

As at the Latest Practicable Date, although our Group only imports American Ginseng (which is excluded from the “food” definition in the Food Safety Ordinance), HF Hong, HF Ginseng Importer, HF Importer, Hang Fat (2013), HF Ginseng Retail, HF Ginseng and HF Ginseng Trading are all registered food importers for Chinese herbs and Chinese herb products. In other words, they would have the required registration to import Chinese herbs and Chinese herb products if they decide to do so. Moreover, HF Hong, HF Ginseng Importer, HF Importer, Hang Fat (2013), HF Ginseng Retail, HF Ginseng and HF Ginseng Trading are also registered food distributors of Chinese herbs and Chinese



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## REGULATORY OVERVIEW

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herb products. Thus, they are entitled to carry on food distribution businesses in respect of such food in Hong Kong. On the other hand, HF Ginseng Retail is also a registered food importer and distributor of Chinese herbs, Chinese herb products and vegetables (including mushrooms, fungi and seaweed). Therefore, it would have the required registration to import such products if it decides to do so, while it is also entitled to carry on food distribution business in respect of such food in Hong Kong.

Further, the Food Safety Ordinance imposes the following respective record-keeping obligations on food importers, food distributors and all other persons who acquire food in the course of business to enhance traceability of food in Hong Kong:

- (i) Food importers as well as a persons who, in the course of business, acquire food in Hong Kong must record the relevant information about the acquisition of the food, including (a) the date when the food was acquired; (b) the name and contact details of the person from whom the food was acquired; (c) the total quantity of the food; and (d) a description of the food, at the time of importation and within 72 hours after the acquisition of the food respectively.
- (ii) In addition to the above obligations, food importers must also record the place from which the food was imported.
- (iii) Food distributors are required to record (a) the date when the food was supplied; (b) the name and contact details of the person to whom the food was supplied; (c) the total quantity of the food; and (d) a description of the food within 72 hours after the supply of the food.
- (iv) All records must be kept for three months after the acquisition or supply in respect of food with a shelf-life of three months or less and 24 months after the acquisition or supply in respect of food with a shelf-life of greater than three months.

Pursuant to the Food Safety Ordinance, the Director of Food and Environmental Hygiene has the power to inspect, use and make public disclosure of the records required to be kept under the Food Safety Ordinance. Moreover, as stipulated by the Food Safety Ordinance, the Director of Food and Environmental Hygiene also has power to make “food safety orders” against any person including (amongst other things) orders prohibiting the import or supply of any food for a specified period or directing a recall, destruction or disposal of any food, if he or she has reasonable grounds to believe that the making of such orders is necessary to prevent or reduce a possibility of danger to public health or to mitigate any adverse consequence of a danger to public health. As confirmed by our Directors, no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of the Food Safety Ordinance up to the Latest Practicable Date.

### **Chinese Medicine Ordinance**

The Chinese Medicine Ordinance (Chapter 549 of the Laws of Hong Kong) (the “**Chinese Medicine Ordinance**”) is an ordinance which regulates the Chinese medicine industry. It provides for, amongst other things, a licensing regime for traders of Chinese herbal medicines and a registration regime for proprietary Chinese medicines.

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## REGULATORY OVERVIEW

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As stipulated by the Chinese Medicine Ordinance, a retailer may only sell by retail dispense to another or possess for the purpose of retail any Schedule 2 Chinese herbal medicines, if it has a retailer licence issued by the Chinese Medicines Board and the retailed Chinese herbal medicines are sold at the retailer's premises as specified in such licence.

On the other hand, pursuant to the Chinese Medicine Ordinance, a wholesaler may only sell or distribute by way of wholesale or for the purpose of wholesale any Schedule 2 Chinese herbal medicine, if a wholesaler licence issued by the Chinese Medicines Board has been obtained and the wholesaled Chinese herbal medicines are sold at the wholesaler's premises as specified in such licence.

In relation to the application of both a retailer licence and wholesaler licence, the Chinese Medicines Board would take into account of the factors set out in the Chinese Medicines Regulation (Chapter 549F of the Laws of Hong Kong), including, amongst other things, the sanitary condition of the wholesale or retail premises and the adequacy and suitability of the facilities for storing Chinese herbal medicines.

Certain of our products such as American Ginseng, dried cordyceps (冬蟲夏草), deer antler (鹿茸), dendrobium (石斛), Chinese angelica (歸片) and pseudoginseng (田七) are listed as Chinese herbal medicines under Schedule 2 to the Chinese Medicine Ordinance. As at the Latest Practicable Date, each of the following companies in our Group holds the relevant licence(s) under the Chinese Medicine Ordinance and is licensed to conduct the relevant business(es):

<b>Company</b>	<b>Licence type</b>	<b>Duration</b>
HF Hong	Wholesaler of "Schedule 2" Chinese herbal medicines	From 12 April 2012 to 15 April 2016
HF Ginseng Importer	Wholesaler of "Schedules 1 and 2" Chinese herbal medicines	From 20 February 2012 to 19 February 2016
	Wholesaler in proprietary Chinese medicines	From 20 February 2012 to 19 February 2016
Hang Fat (2013)	Wholesaler of "Schedule 2" Chinese herbal medicines	From 7 August 2013 to 6 August 2015
HF Ginseng Retail	Retailer of "Schedule 2" Chinese herbal medicines	From 25 September 2013 to 24 September 2015
HF Ginseng	Wholesaler of "Schedule 2" Chinese herbal medicines	From 25 September 2013 to 24 September 2015
HF Ginseng Trading	Wholesaler of "Schedule 2" Chinese herbal medicines	From 7 August 2013 to 6 August 2015

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## REGULATORY OVERVIEW

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Although our Group does not at any time during the Track Record Period sell Schedule 1 Chinese herbal medicines (which are toxic herbal medicines), as disclosed above, HF Ginseng Importer is nonetheless licensed to conduct business in the wholesale of both Schedule 1 and Schedule 2 Chinese herbal medicines from 20 February 2012 to 19 February 2016. Therefore, if we wish to do so, HF Ginseng Importer has the necessary licence to sell by way of wholesale Schedule 1 Chinese herbal medicines. As confirmed by our Directors, no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of the Chinese Medicine Ordinance up to the Latest Practicable Date.

### **Public Health and Municipal Services Ordinance**

Our operations are subject to the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) (the “PHMSO”)

Pursuant to the PHMSO, no person shall add substance to food, use any substance as an ingredient in the preparation of food, abstract any constituent from food, or subject food to any other process or treatment, so as to render the food injurious to health. It also provides that no one shall sell any such food for human consumption.

Under the PHMSO, a person may be guilty of an offence if it sells to the prejudice of a purchaser any food which is not of the nature, not of the substance, or not of the quality, of the food demanded by the purchaser. It is also an offence under the PHMSO if a person sells, or offers or exposes for sale or has in his possession for the purpose of sale any food intended for, but unfit, for human consumption. Further, it is also an offence for a food seller to apply for a label, which falsely describes the food or is calculated to mislead as to its nature, substance or quality.

The subsidiary legislation of the PHMSO provides further regulations. Specific restrictions on the use of food colouring, the use of food sweeteners, metallic contents in food, the maximum levels of specified harmful substances in food and food preservations are found in the Colouring Matter in Food Regulations (Chapter 132H of the Laws of Hong Kong), the Sweeteners in Food Regulations (Chapter 132U of the Laws of Hong Kong), the Food Adulteration (Metallic Contamination) Regulations (Chapter 132V of the Laws of Hong Kong), the Harmful Substances in Food Regulations (Chapter 132AF of the Laws of Hong Kong) and the Preservatives in Food Regulation (Chapter 132BD of the Laws of Hong Kong) respectively.

The Food Business Regulation (Chapter 132X of the Laws of Hong Kong) imposes on every person carrying on a food business (such as our Group) the obligations to, amongst other things, keep its business premises and equipment clean and protect its food from the risk of contamination or deterioration.

Further, Regulation 4A of and Schedule 3 to the Food and Drugs (Composition and Labelling) Regulations (Chapter 132W of the Laws of Hong Kong) require pre-packaged food be labeled in either English, Chinese or both languages, with its food name or designation, a list of ingredients, an indication of the “best before” or “use by” date, a statement of special conditions for storage or instructions for use, count, weight or volume and the name and address of manufacturer or packer. By Regulation

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## REGULATORY OVERVIEW

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4B and Schedule 5 to such Regulations, pre-packaged food shall be legibly marked or labeled with a list of nutrients, setting out the food's energy, nutrient contents and other additional information, if a nutrient claim is made. A person who sells pre-packaged food without proper label is guilty of an offence under Regulation 5 of the Food and Drugs (Composition and Labelling) Regulations.

For the purpose of enforcing the food safety provisions under the PHMSO and its subsidiary legislations, any public officer authorised by the Director of Food and Environmental Hygiene has the power to examine and take samples of food as well as to seize, remove, destroy or dispose of any food which appears to be unfit for human consumption. As confirmed by our Directors, no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of the PHMSO up to the Latest Practicable Date.

### **Other general statutory provisions relating to consumer protection and trade**

Apart from the PHMSO and its subsidiary legislations, the Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) makes it an offence for any person, in the course of trade or business, to (i) apply for a false trade description to any goods; (ii) supply or offer to supply any goods to which a false trade description is applied; or (iii) has in his possession for sale or for any purpose of trade or manufacture any goods to which a false trade description is applied. Furthermore, pursuant to the same legislation, it is an offence for a person to import or export any goods to which a false trade description is applied.

Undesirable Medical Advertisements Ordinance (Chapter 231 of the Laws of Hong Kong) is also potentially relevant to our operations, as it prohibits a person from publishing any advertisement, which is likely to lead to the use of any medicine (including any Chinese herbal medicine) for the purposes of, amongst other things, promoting sexual virility, desire or fertility or restoring lost youth.

### **Inland Revenue Ordinance**

The IRO is a statute enacted for the purposes of imposing taxes on property, earnings and profits in Hong Kong.

The IRO provides, amongst other things, that profits tax shall be charged on every person carrying on a trade, profession or business in Hong Kong in respect of his or her assessable profits arising in or derived from Hong Kong at the standard rate, which stands as at the Latest Practicable Date at 16.5% for corporate taxpayers. The IRO also contains detailed provisions relating to, amongst other things, permissible deductions for outgoings and expenses, set-offs for losses and allowances for depreciations of capital assets. As some of our subsidiaries carrying on businesses in Hong Kong, our Directors confirm that our subsidiaries in Hong Kong are all subject to the profits tax regime under the IRO.

As stipulated by the IRO, the IRD may give notice in writing to any person requiring him or her to furnish a prescribed tax return. For the proper enforcement of the tax regime, the IRD is equipped with various powers, including the power to require any person to furnish any relevant information, the power to examine any person for the purposes of obtaining full information with regard to any matter affecting a person's liability, responsibility or obligation under the IRO and the power to

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## REGULATORY OVERVIEW

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require a person to furnish a detailed statement of assets and liabilities. The IRD may also in certain circumstances apply to a magistrate for a search warrant. As required by the IRO, every person carrying on a trade, profession or business in Hong Kong is required to keep sufficient records of his or her income and expenditure and shall retain such records for a period of not less than seven years.

As stipulated by the IRO, a person commits a criminal offence if he or she, without reasonable excuse, (i) makes an incorrect tax return by omitting or understating anything; (ii) makes an incorrect statement in connection with a claim for any tax deduction or allowance; or (iii) gives any incorrect information in relation to any matter or thing affecting his or her (or some other person's) tax liability. Such a person is liable on conviction to a fine. Depending on the situation, the IRD may, instead of instituting criminal prosecution, require the person to pay additional tax of an amount not exceeding treble the amount of tax which has been undercharged in consequence of the incorrect tax return, statement or information. If the person makes or gives the incorrect tax return, statement of information wilfully and with the intent to evade tax (or to assist any other person to evade tax), he or she is guilty of a criminal offence and is liable on conviction to a fine and imprisonment. The IRO further provides that a person who has been assessed additional tax shall not be liable to be charged on the same facts with an offence as described above.

Our Directors confirm that at all times during the Track Record Period, save as non-compliance with the IRO by HF Hong for the years of assessment from 2003/4 to 2007/08 and from 2009/10 to 2010/11, we have complied with the IRO. Details of the non-compliance with the IRO by HF Hong are set out in the paragraph headed "Non-compliance matters under the IRO" under the section headed "Business" of this prospectus. Further details of the internal control measures to prevent non-compliance with the IRO are set out in the paragraph headed "Internal control measures designed to prevent future non-compliance" under the section headed "Business" of this prospectus.

### **Employment and labour legislation**

The principal employment and labour statutes in Hong Kong include the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the "EO"), the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the "ECO"), the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPFSO") and the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) (the "MWO").

The EO is an ordinance enacted for, amongst other things, the protection of the wages of employees and the regulation of the general conditions of employment and employment agencies. Under the EO, an employee is generally entitled to, amongst other things, notice of termination of his or her employment contract; payment in lieu of notice; maternity protection in the case of a pregnant employee; not less than one rest day in every period of seven days; severance payments or long service payments; sickness allowance; statutory holidays or alternative holidays; and paid annual leave of up to 14 days depending on the period of employment. As advised by our Hong Kong Legal Counsel, terms and conditions of the employment contracts entered into by our Group were (at the time when the respective employment contracts were entered into) in compliance with the EO. In addition, our Directors confirm that no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of the EO up to the Latest Practicable Date.

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## REGULATORY OVERVIEW

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The ECO is an ordinance enacted for the purpose of providing for the payment of compensation to employees injured in the course of employment. As stipulated by the ECO, an employer is required to take out an insurance policy to insure against the injury risk of his or her employees. Any employer who contravenes this requirement commits a criminal offence and is liable on conviction to a fine and imprisonment. An employer who has taken out an insurance policy under the ECO is required to display a prescribed notice of insurance in a conspicuous place on each of its premises where any employee is employed. Our Directors confirm that at all times during the Track Record Period, HF Holdings has been the employer of all of our Group's staff in Hong Kong and has maintained an insurance policy under the ECO, with the requisite notice of insurance. As advised by our Hong Kong Legal Counsel, terms and conditions of the employment contracts entered into by our Group were (at the time when the respective employment contracts were entered into) in compliance with the ECO. In addition, our Directors confirm that no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of the ECO up to the Latest Practicable Date.

The MPFSO is an ordinance enacted for the purposes of providing for the establishment of non-governmental mandatory provident fund schemes (“**MPF Schemes**”). The MPFSO requires every employer of an employee of 18 years of age or above (but below the retirement age) to take all practical steps to ensure that the employee becomes a member of a registered MPF Scheme. Any employer who contravenes this requirement commits a criminal offence and is liable on conviction to a fine and imprisonment. If an employer has, to the satisfaction of the Mandatory Provident Fund Schemes Authority, complied with the requirement, a certificate would be issued to the employer, certifying that the employer is a participating employer in the specified MPF Scheme. At all times during the Track Record Period, each of HF Holdings and HF Hong has been a certified participating employer in a registered MPF Scheme known as “HSBC MPF SuperTrust Plus”. As advised by our Hong Kong Legal Counsel, terms and conditions of the employment contracts entered into by our Group were (at the time when the respective employment contracts were entered into) in compliance with the MPFSO. In addition, our Directors confirm that no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of the MPFSO up to the Latest Practicable Date.

The MWO is a statute enacted for the purposes of providing for a minimum wage at an hourly rate for most employees. It came into effect on 1 May 2011. From 1 May 2011, the minimum hourly wage rate for an employee (other than an employee with disability) was HK\$28.00 per hour, which was increased to HK\$30.00 per hour with effect from 1 May 2013. As advised by our Hong Kong Legal Counsel, terms and conditions of the employment contracts entered into by our Group were (at the time when the respective employment contracts were entered into) in compliance with the MWO. In addition, our Directors confirm that no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of the MWO up to the Latest Practicable Date.

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## REGULATORY OVERVIEW

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### OVERVIEW OF LAWS AND REGULATIONS OF CANADA

We purchase American Ginseng from Growers with the assistance of the Canadian Bulk Exporter based in the Canadian province of Ontario. The Canadian Bulk Exporter is subject to a range of Canadian federal export laws and regulations, as well as permits and other approval processes relating to the protection of American Ginseng as an endangered species. Since the export of American Ginseng from Canada is arranged by the Canadian Bulk Exporter, our Group, as a mere purchaser, is not subject to these requirements.

#### Export Controls

All companies and persons located in Canada who export goods from the country are subject to certain reporting and record keeping requirements. Our Group engages the Canadian Bulk Exporter, which is an Ontario-based third party and a Grower, to arrange for the export of the American Ginseng from Canada. As a result, it is the responsibility of the Canadian Bulk Exporter to fulfil the administrative reporting and record keeping requirements associated with exporting Cultivated Ginseng from Canada.

Depending upon the type of goods that are being exported, a Canadian company may also be subject to Canada's Export and Import Permits Act (the "EIPA"). The EIPA is designed to allow the Government of Canada to either limit, or prohibit altogether, the export of goods and technology that are listed in the Export Control List (the "List"). Despite these restrictions, the EIPA allows Canadian companies to obtain a permit to export controlled goods if the government is satisfied that such exports will not be diverted towards illegitimate end-uses or ones that could harm Canada, its allies or its foreign and defence interests abroad. American Ginseng is currently not listed on the List, meaning that, at this time, the Canadian Bulk Exporter would not be required to obtain an export permit in connection with the export of Cultivated Ginseng from Canada.

At present, Canada does not impose tariffs on the export of American Ginseng.

#### Endangered Species Legislation

The international trade of American Ginseng is regulated under CITES to which Canada and 176 other nations (including China) are signatories. The species of fauna and flora covered by CITES are listed in three appendices in accordance with the degree of protection afforded. American Ginseng is currently listed in Appendix II to CITES, meaning it is a species not yet threatened with extinction but in which trade must be controlled in order to avoid utilisation incompatible with its survival. CITES regulates trade through permit requirements for exports and re-exports of listed species.

In Canada, CITES is enforced pursuant to the Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act ("WAPPRIITA") which forbids the import, export and interprovincial transportation of species listed in the CITES appendices unless the appropriate licenses and permits have been obtained. Various Canadian government enforcement agencies, including the Canada Border Services Agency, the Canada Customs and Revenue Agency, the Canadian Food and Inspection Agency and the Royal Canadian Mounted Police, collaborate with Environment Canada to implement the treaty.

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## REGULATORY OVERVIEW

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In order to export American Ginseng from Canada, the Canadian Bulk Exporter would be required to possess an export permit pursuant to WAPPRIITA. The Canadian Bulk Exporter has represented that it has obtained a permit for the exportation of American Ginseng pursuant to WAPPRIITA. It is important to note that since WAPPRIITA allows the Canadian government to revoke an export permit for a contravention of its terms and conditions at any time, the fact that the Canadian Bulk Exporter currently has a permit is no guarantee that it will continue to have one in the future.

The Ontario Endangered Species Act, 2007 provides that American Ginseng can be exported from Ontario only if such American Ginseng is cultivated on land for which licence fees are payable to the OGGA. This regulatory requirement is in addition to the export permit required pursuant to WAPPRIITA. The Canadian Bulk Exporter has represented that all American Ginseng which it exports to our Group has been cultivated on land for which licence fees have been validly paid to the OGGA.

As the export of American Ginseng from Canada is handled by the Canadian Bulk Exporter, our Group does not engage in the export of American Ginseng from Canada. Hence, our Group is not subject to CITES regulations in Canada governing the exportation of American Ginseng. The Canadian Bulk Exporter was subject to and has represented to us that it was in compliance with CITES regulations.

### OVERVIEW OF LAWS AND REGULATIONS OF THE UNITED STATES

#### Federal Regulation

The export of American Ginseng from the United States is governed by CITES, which was entered into by the United States in 1975 and is administered by the U.S. Fish and Wildlife Service, Department of the Interior (the “**Wildlife Service**”). Each signatory country to CITES must ensure, among other things, that certain endangered species (both plant and animal) are being maintained at sustainable levels and are only exported from the country with proof of an export certificate.

The U.S. regulations implementing CITES classify American Ginseng as an Appendix II protected plant species, a designation that carries certain reporting, record keeping, and export permit requirements for any party seeking to export it from the United States. The federal requirements of CITES are significantly streamlined when, as in the case of Ohio, a state has already enacted an approved ginseng management program (as described below in “**Ohio Ginseng Management Program**”). Nonetheless, all exporters of American Ginseng must obtain a permit (either annual or by shipment) and provide certain export documentation to the port authorities prior to export of the American Ginseng. Further, the U.S. regulations also restrict the importation, exportation, and re-exportation of American Ginseng to a specific set of U.S. ports located in Atlanta, Georgia; Chicago, Illinois; Baltimore, Maryland; St. Louis, Missouri; and Milwaukee, Wisconsin.

To our Directors’ actual and best knowledge, each of our Bulk Exporters located in the United States has obtained all necessary permits and has complied with the reporting obligations required for the export of American Ginseng under the U.S. regulations implementing CITES.



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## REGULATORY OVERVIEW

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### **Ohio Ginseng Management Program**

The harvest, purchase, sale, possession, and export of American Ginseng by suppliers within the state of Ohio are governed by the Ohio Ginseng Management Act (the “**Ohio Ginseng Act**”), which was enacted on 18 March 1999, and is administered by the Ohio Department of Natural Resources, Division of Wildlife (“**ODNR**”). In order to maintain a sustainable yield of American Ginseng, the Ohio Ginseng Act: (i) establishes a harvesting calendar for all wild or naturally-occurring American Ginseng; (ii) requires that all American Ginseng be certified by an ODNR inspector before it is purchased, sold, transported, or otherwise exported out of the state; (iii) requires that all dealers who sell or export American Ginseng to obtain an annual dealer’s registration permit from ODNR; and (iv) imposes certain record keeping and periodic filing requirements on all collectors, dealers, and growers of American Ginseng.

According to the requirements of the Ohio Ginseng Act, ginseng may only be purchased from Ohio dealers who have obtained an annual permit from the ODNR. Prior to export, the purchased ginseng must be certified by an ODNR inspector who has confirmed that the ginseng has been legally acquired or cultivated and that the corresponding certification fee (US\$3.00 per pound of American Ginseng) has been paid. Failure to obtain certified ginseng, as evidenced by a proof of state certification, may result in the seizure and forfeiture of the uncertified American Ginseng to the state.

To our Directors’ actual and best knowledge derived, each of our Bulk Exporters located in the United States has obtained all necessary permits and complied with the record keeping obligations required for the purchase, sale, and export of American Ginseng under the Ohio Ginseng Act.

### **Pennsylvania Ginseng Management Program**

The harvest, purchase, sale, possession and export of American Ginseng within the state of Pennsylvania is governed by the Pennsylvania Code, Sections 45.61-72 and administered by the Department of Conservation and Natural Resources (the “**DCNR**”). In order to maintain a sustainable yield of American Ginseng, Pennsylvania law: (i) establishes a harvesting calendar for all wild or naturally-occurring American Ginseng; (ii) requires that all American Ginseng be certified by a DCNR inspector before it is purchased, sold, transported, or otherwise exported out of the state; (iii) requires that all dealers who sell or export ginseng to obtain an annual dealer’s commercial license in writing from the DCNR; (iv) requires that a Pennsylvania ginseng certificate is obtained for each export shipment of American Ginseng from Pennsylvania; and (v) imposes certain record keeping and periodic filing requirements on all collectors, dealers, and growers of American Ginseng.

To our Directors’ actual and best knowledge derived, each of our Bulk Exporters located in the United States has obtained all necessary permits and complied with the record keeping obligations required for the purchase, sale and export of ginseng under the Pennsylvania Code.

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## REGULATORY OVERVIEW

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### **Kentucky Ginseng Management Program**

The harvest, purchase, sale, possession and export of American Ginseng within the state of Kentucky is governed by Kentucky Revised Statutes, section 246.660 and administered by the Department of Agriculture (the “DOA”). In order to maintain a sustainable yield of American Ginseng, Kentucky Administrative Regulation 302 KAR 45:010 (i) establishes a harvesting calendar for all wild or naturally-occurring American Ginseng; (ii) requires that all dealers who sell or export American Ginseng to obtain an annual dealer’s license from the DOA; (iii) requires that all American Ginseng be certified by the DOA on an American Ginseng Export Certificate before it is exported out of the state; (iv) imposes certain record keeping and periodic filing requirements on all collectors, dealers, and growers of American Ginseng; and (v) establishes administrative violations, civil penalties and procedures for the suspension or revocation of a dealer’s license.

The fee for certification and processing of dealer ginseng purchase forms by the DOA is US\$2.00 per pound of American Ginseng. Payment must be made prior to the release of the certification of the American Ginseng to the dealer.

To our Directors’ actual and best knowledge derived, each of our Bulk Exporters located in the United States has obtained all necessary permits and complied with the record keeping obligations required for the purchase, sale and export of American Ginseng under the Kentucky law.

### **Indiana Ginseng Management Program**

The harvest, purchase, sale, possession and export of ginseng within the state of Indiana is governed by Public Law 107 (IC 14-4-8) and Ginseng Rule 312 IAC 19. In order to maintain a sustainable yield of American Ginseng, the Indiana Department of Natural Resources, Division of Nature Preserves (the “IDNR”), serves as the state’s American Ginseng coordinator and administers the state’s American Ginseng program. Under its statutory authority, the IDNR: (i) establishes a harvesting calendar for all wild or naturally-occurring American Ginseng; (ii) requires all ginseng bought for resale or export to be certified by the state’s Conservation Officer; (iii) requires that all dealers who sell or export ginseng to obtain an annual dealer’s license from the IDNR; (iv) imposes certain record keeping and periodic filing requirements on all collectors, dealers, and growers of American Ginseng; and (v) establishes administrative violations, civil penalties and procedures for the suspension or revocation of a dealer’s license.

To our Directors’ actual and best knowledge derived, each of our Bulk Exporters located in the United States has obtained all necessary permits and complied with the record keeping obligations required for the purchase, sale and export of American Ginseng under the Indiana law.

We mainly purchase American Ginseng from the Bulk Exporters located in the United States. We do not engage in the export of American Ginseng from the United States. The Bulk Exporters are responsible for handling the export formalities. Therefore, our Group which is located outside of the United States, as purchaser from the Bulk Exporters, is not responsible for complying with any legal and regulatory requirements in relation to the export of American Ginseng under the federal laws of the United States and the laws of the states of Ohio, Indiana, Kentucky and Pennsylvania.

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## HISTORY AND REORGANISATION

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### OUR HISTORY AND DEVELOPMENT

Mr. Matthew Yeung began an apprenticeship in a traditional Chinese medicine shop in Hong Kong in the early 1980s. As knowledge of the industry has been passed from one generation to the next by apprenticeship, Mr. Matthew Yeung's apprenticeship in the Chinese medicine shop was a particularly valuable experience and entry point into the unprocessed American Ginseng wholesale industry.

In April 1989, Mr. Matthew Yeung set up HF Hong through his personal resources to source, process and trade ginseng from wholesalers for retailers in Hong Kong. As the business grew, Mr. Matthew Yeung asked his mother, Madam Fu and his younger brother, Mr. Jeffrey Yeung, to join HF Hong in 1989 and 1992, respectively and together, they developed relationships with suppliers and customers to further expand the business. Recognising the importance of securing first-hand supplies of American Ginseng, we began to purchase Cultivated Ginseng directly from Canada in the early 1990s. For further details of the corporate history of HF Hong and other subsidiaries of our Company, please refer to the paragraph headed "Subsidiaries of our Company" in Appendix V to this prospectus.

During our over 20 years in the American Ginseng industry, under the skillful management of Mr. Matthew Yeung, our Chairman, Chief Executive Officer, founder and one of our Controlling Shareholders, our business grew from a small private enterprise into one of the leading players in the American Ginseng wholesale industry in Hong Kong. We were the largest first-level American Ginseng wholesaler in Hong Kong in terms of sales revenue and sales volume for the years ended 31 December 2011, 2012 and 2013, according to the Ipsos Report. Moreover, our market share of the total revenue generated by the first-level American Ginseng wholesalers in Hong Kong was over 50% for the year ended 31 December 2013.

In 2009, in order to further enhance our brand profile among retail consumers in Hong Kong, we opened our first retail outlet in Sheung Wan, Hong Kong. We offer Cultivated Ginseng, Wild Ginseng and Other Products at our retail outlet. In 2013, we set up store-in-store concessions in selected hypermarkets and supermarkets for the sale of our Cultivated Ginseng products.

Apart from our Group, our Controlling Shareholders do not have substantial interest in other company which competes or is likely to compete directly or indirectly the business of our Group.

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## HISTORY AND REORGANISATION

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### BUSINESS MILESTONES

- 1989 Mr. Matthew Yeung set up HF Hong in Hong Kong
- Madam Fu joined HF Hong as a director
- 1992 Mr. Jeffrey Yeung joined HF Hong as a director
- 2009 Opened our first retail outlet in Sheung Wan, Hong Kong
- 2009-2013 Ranked first among first-level wholesalers in Hong Kong in terms of sales revenue and sales volume for five consecutive years since 2009, according to the Ipsos Report
- 2013 Set up store-in-store concessions in hypermarkets and supermarkets in selected locations in Hong Kong
- Awarded as Quality Tourism Services (QTS) Scheme accredited shop by the Hong Kong Tourism Board

### REORGANISATION

In preparation for the listing of our Shares on the Stock Exchange, the companies comprising our Group underwent a reorganisation. Further information in relation to the (i) principal business activities of each member of our Group; (ii) major shareholding changes and the reasons of changes; (iii) incorporation date of each member of our Group are set out in the paragraph headed “Further information about our Group – Subsidiaries of our Company” in Appendix V to this prospectus. The main steps of our Reorganisation were:

#### *Setting up of investment holding companies of shareholders*

- (a) On 1 October 2009, Dragon Jump was incorporated in the BVI as an investment holding company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the date of its incorporation, Dragon Jump allotted and issued at par one ordinary share to Mr. Matthew Yeung. On 6 July 2011, Mr. Matthew Yeung transferred one ordinary share of Dragon Jump, being its entire issued share capital, to Mr. Jeffrey Yeung for a consideration of US\$1.00;
- (b) On 21 January 2011, Cervera was incorporated in the BVI as an investment holding company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the date of its incorporation, Cervera allotted and issued at par 63 shares, 30 shares and 7 shares to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu respectively;

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## HISTORY AND REORGANISATION

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- (c) On 10 March 2011, Ace Fame was incorporated in the BVI as an investment holding company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the date of its incorporation, Ace Fame allotted and issued at par 100 shares to Madam Fu;
- (d) On 10 June 2011, Athena Power was incorporated in the BVI as an investment holding company with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each. On the date of its incorporation, Athena Power allotted and issued at par 100 shares to Mr. Matthew Yeung;

### *Incorporation of our Company*

- (e) On 18 August 2011, our Company was incorporated in the Cayman Islands with limited liability under the Cayman Companies Law as an exempted company with an authorised share capital of HK\$10,000 divided into 1,000,000 shares of HK\$0.01 each, which became the listing vehicle of our Group as a result of our Reorganisation. On 18 August 2011, our Company allotted and issued one nil-paid Share to Codan Trust Company (Cayman) Limited, which was transferred at nil consideration to Cervera on the same date. Our Company also allotted and issued another 799,999, 14,000, 60,000 and 126,000 nil-paid Shares to each of Cervera, Ace Fame, Dragon Jump and Athena Power respectively on the same date;

### *Disposal of subsidiaries*

- (f) On 31 March 2011, HF Hong transferred 5,100 ordinary shares of Heng Xhin, a company incorporated in Hong Kong on 30 April 2010 with an issued share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each held by each of HF Hong and Moment Design Company Limited, an Independent Third Party, as to 51% and 49% respectively on incorporation, to Moment Design Company Limited at a consideration of HK\$5,100. Upon completion of such transfer, Heng Xhin was wholly owned by Moment Design Company Limited, and was no longer a subsidiary of our Group. As confirmed by our Directors, Heng Xhin was formed as a business venture with Moment Design Company Limited to engage in the sale and purchase of ginseng related products. Since Heng Xhin's establishment, only minimal business had been done. For the financial year of 2011, only one transaction was concluded and revenue of approximately HK\$8,500 was recorded. As Heng Xhin only had minimal business operation and was not wholly owned by our Group, it is intended by our Directors that Heng Xhin would not be included as part of our Group. As at the Latest Practicable Date, Heng Xhin had been dissolved;
- (g) On 22 February 2012, HF Hong transferred 10,000 shares in Billion Victor, being its entire issued share capital, to Mr. Matthew Yeung at a consideration of HK\$17,000,000, which was determined by reference to the then net asset value of Billion Victor. Upon completion of such transfer and as at the Latest Practicable Date, Billion Victor was no longer a subsidiary of our Group. As at the Latest Practicable Date, Billion Victor was

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## HISTORY AND REORGANISATION

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wholly owned by Mr. Matthew Yeung. As confirmed by our Directors, Billion Victor was formed for the purpose of property holding and had held a property which was then used as director's quarter. It is intended by our Directors that Billion Victor would not be included as part of our Group;

- (h) On 2 April 2012, HF Hong transferred 10,000 shares in Metro Victor to Great Well Properties Limited, a company which was then held as to 30% by Mr. Matthew Yeung and as to 70% in aggregate by two Independent Third Parties, at a consideration of HK\$50,000,000, which was determined by reference to the then net asset value of Metro Victor. Upon completion of such transfer and as at the Latest Practicable Date, Metro Victor was no longer a subsidiary of our Group. As at the Latest Practicable Date, Great Well Properties Limited was wholly owned by three Independent Third Parties, and Mr. Matthew Yeung was a director thereof. As confirmed by our Directors, Metro Victor was formed for the purpose of property holding and had held a property which was then used for hosting functions. It is intended by our Directors that Metro Victor would not be included as part of our Group;

### *Setting up of our intermediate holding company*

- (i) On 18 June 2013, Hang Fat Group Holdings was incorporated in the BVI as an investment holding company with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each. On the date of incorporation, Hang Fat Group Holdings allotted and issued at par 7 shares, 30 shares and 63 shares to each of Madam Fu, Mr. Jeffrey Yeung and Mr. Matthew Yeung; and

### *Acquisition by our Company*

- (j) Pursuant to a share transfer agreement dated 23 May 2014 and entered into between Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu as vendors and warrantors and our Company as purchaser, we acquired the entire issued share capital in Hang Fat Group Holdings, in consideration of which our Company, as directed by Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu, credited as fully paid the 1,000,000 nil-paid Shares in aggregate which were registered in the names of Cervera, Ace Fame, Dragon Jump and Athena Power.

Each of the share transfers mentioned above was properly and legally completed and settled. Our Reorganisation was completed on 23 May 2014.

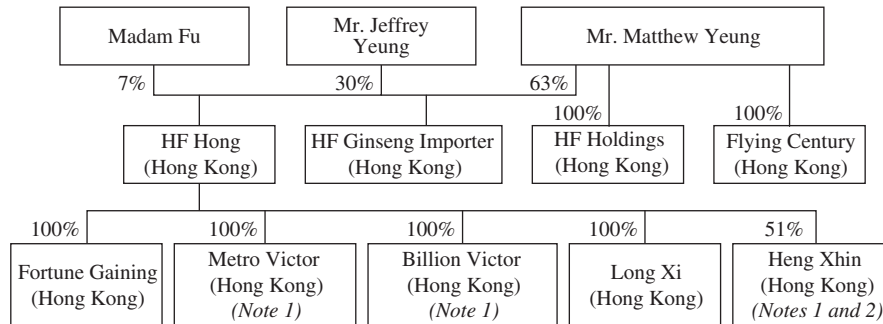
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## HISTORY AND REORGANISATION

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### Group Structure

The following chart sets out the structure of our Group immediately before our Reorganisation:

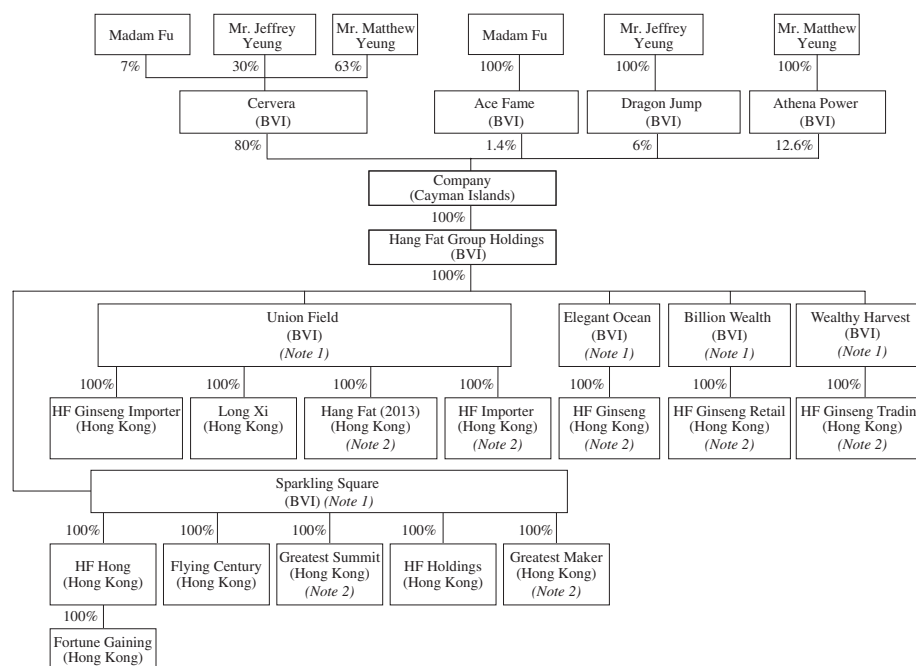


*Notes:*

1. These companies did not form part of our Group upon completion of our Reorganisation. For further details regarding the reasons of disposal of these companies, please refer to the paragraph headed "Further information about our Group – Subsidiaries of our Company" in Appendix V to this prospectus.
2. Heng Xhin was owned as to 49% by Moment Design Company Limited, an Independent Third Party, immediately before our Reorganisation.

## HISTORY AND REORGANISATION

The following chart sets out the structure of our Group immediately after our Reorganisation and immediately prior to the Capitalisation Issue and the Global Offering:



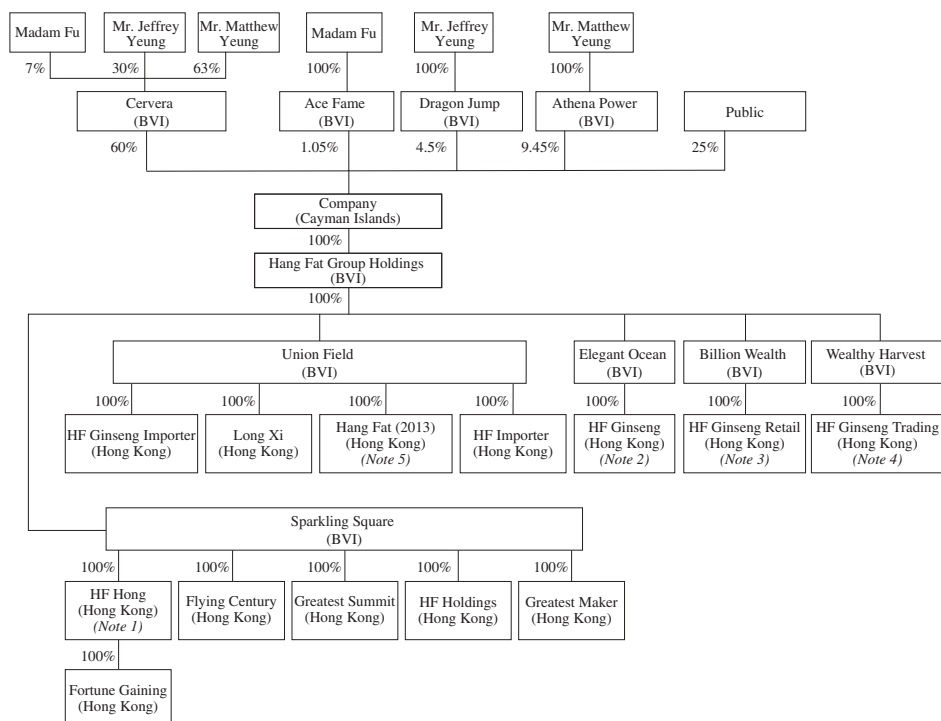
*Notes:*

1. These companies were set up for the purpose of investment holding due to internal reorganisation of our Group. For details of these subsidiaries, please refer to the paragraph headed “Further information about our Group – Subsidiaries of our Company” in Appendix V to this prospectus.
2. These companies were set up for business development of our Group. For details of these subsidiaries, please refer to the paragraph headed “Further Information about our Group – Subsidiaries of our Company” in Appendix V to this prospectus.



## HISTORY AND REORGANISATION

The following chart sets out the structure of our Group immediately after completion of our Reorganisation, the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised and no Shares are issued pursuant to any options which may be granted under the Share Option Scheme):



*Notes:*

1. HF Hong is one of our major subsidiaries which has commenced its business since May 1989. As at the Latest Practicable Date, HF Hong was principally engaged in sourcing of American Ginseng.
2. HF Ginseng is one of our major subsidiaries which has commenced its business since June 2013. As at the Latest Practicable Date, HF Ginseng was principally engaged in retailing of American Ginseng and Other Products.
3. HF Ginseng Retail is one of our major subsidiaries which has commenced its business since December 2013. As at the Latest Practicable Date, HF Ginseng Retail was principally engaged in wholesaling and retailing of American Ginseng and Other Products.
4. HF Ginseng Trading is one of our major subsidiaries which has commenced its business since October 2013. As at the Latest Practicable Date, HF Ginseng Trading was principally engaged in wholesaling of Wild Ginseng.
5. Hang Fat (2013) is one of our major subsidiaries which has commenced its business since December 2013. As at the Latest Practicable Date, Hang Fat (2013) was principally engaged in wholesaling of Cultivated Ginseng.

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## BUSINESS

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### OVERVIEW

We were the largest first-level American Ginseng wholesaler in Hong Kong in terms of sales revenue and sales volume in the years ended 31 December 2011, 2012 and 2013, according to the Ipsos Report. Our market share of the total revenue generated by the first-level American Ginseng wholesalers in Hong Kong was over 50% for the year ended 31 December 2013, according to the Ipsos Report. First-level wholesalers are wholesalers who directly source and import American Ginseng from Growers, Harvesters or Bulk Exporters and wholesale to their customers. During our over 20 years in the American Ginseng industry, under the skillful management of Mr. Matthew Yeung, our Chairman, Chief Executive Officer, founder and one of our Controlling Shareholders, our business grew from a small private enterprise into one of the leading players in the American Ginseng wholesale industry in Hong Kong. Hong Kong is considered to be one of the most important American Ginseng shipping and receiving port in the world. According to the Ipsos Report, in 2013, around 90.3% of Canada's American Ginseng exports and 45.9% of the United States' American Ginseng exports were destined to Hong Kong.

We are primarily engaged in the sourcing and wholesaling of unprocessed American Ginseng, which comprises Cultivated Ginseng and Wild Ginseng. We do not cultivate or harvest American Ginseng. We purchase all of our unprocessed American Ginseng from Growers and Bulk Exporters (who consolidate shipments of American Ginseng from other Growers or Harvesters for export to Hong Kong) based in Canada and the United States. We are also engaged in the selling of a relatively small amount of processed American Ginseng and Other Products sourced from suppliers based in Hong Kong. We sell our American Ginseng (both unprocessed and processed) in Hong Kong to our customers who are primarily secondary wholesalers and retailers of American Ginseng mainly based in Hong Kong, the PRC, Taiwan and Southeast Asia. We are also engaged in retail sales of processed American Ginseng and Other Products through our retail outlet and store-in-store concessions in selected hypermarkets and supermarkets in Hong Kong.

We experienced growth in revenue during the Track Record Period. Our revenue increased from approximately HK\$446.4 million in the year ended 31 December 2011 to approximately HK\$763.0 million in the year ended 31 December 2013, representing a CAGR of approximately 30.7%.

Our gross profit increased from approximately HK\$88.2 million in the year ended 31 December 2011 to approximately HK\$179.4 million in the year ended 31 December 2013, representing a CAGR of approximately 42.6%, despite a decrease in our gross profit by approximately HK\$7.8 million, or approximately 8.8%, from approximately HK\$88.2 million for the year ended 31 December 2011 to approximately HK\$80.4 million for the year ended 31 December 2012.

Our net profit increased from approximately HK\$44.4 million in the year ended 31 December 2011 to approximately HK\$128.6 million in the year ended 31 December 2013, representing a CAGR of approximately 70.2%, despite a decrease in our net profit by approximately HK\$12.1 million, or approximately 27.3%, from approximately HK\$44.4 million for the year ended 31 December 2011 to approximately HK\$32.3 million for the year ended 31 December 2012.

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## BUSINESS

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Excluding the non-operating items, our adjusted net profit for the year increased from approximately HK\$38.2 million in the year ended 31 December 2011 to approximately HK\$128.0 million in the year ended 31 December 2013, representing a CAGR of approximately 83.1%, despite a decrease in our adjusted net profit by approximately HK\$29.6 million, or approximately 77.5%, from approximately HK\$38.2 million for the year ended 31 December 2011 to approximately HK\$8.6 million for the year ended 31 December 2012.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success:

#### **The largest first-level American Ginseng wholesaler in Hong Kong in terms of sales revenue and sales volume with a well-recognised brand**

We were the largest first-level American Ginseng wholesaler in Hong Kong in terms of sales revenue and sales volume in the years ended 31 December 2011, 2012 and 2013, according to the Ipsos Report. Our market share of the total revenue generated by the first-level American Ginseng wholesalers in Hong Kong was over 50% for the year ended 31 December 2013, according to the Ipsos Report. We believe that as a result of our large scale of operation, we enjoy relative strong bargaining power with our customers as well as Growers, Bulk Exporters and other suppliers, which has supported our growth and profitability. We believe that our success in the American Ginseng industry is not only dependent on our large scale business operation, but also on our sound reputation, market recognition and ability to maintain customer's loyalty. During our over 20 years in the American Ginseng industry in Hong Kong, we believe that our business and our Hang Fat (恒發) brand have come to be recognised as reputable and reliable by Growers, Bulk Exporters, other suppliers and customers, and that our established close relationship with them and their confidence in us will enable us to continue to do business with them going forward. Given our leading market position in Hong Kong, we believe that we are one of the most recognised wholesalers in the American Ginseng industry in Hong Kong.

#### **Experienced management team with a proven track record**

Led by Mr. Matthew Yeung, our Chairman, Chief Executive Officer, executive Director and founder, our management team has significant experience and in-depth knowledge of the American Ginseng industry. Mr. Matthew Yeung, started his career in the American Ginseng industry over 30 years ago as an apprentice in a traditional Chinese medicine shop in Hong Kong. In 1989, Mr. Matthew Yeung decided to venture out on his own, establishing HF Hong to conduct American Ginseng processing and trading business. As the business grew, Mr. Matthew Yeung asked his mother, Madam Fu, and his younger brother, Mr. Jeffrey Yeung, to join HF Hong in 1989 and 1992, respectively, and together, they developed relationships with suppliers and customers to further expand the business. During our over 20 years in the American Ginseng industry, under the skillful leadership of Mr. Matthew Yeung, our business has grown into one of the leading players in the American Ginseng wholesale industry in Hong Kong. We believe that the in-depth knowledge, experience and industry connections of Mr. Matthew Yeung, Mr. Jeffrey Yeung, Madam Fu and the rest of our management team serve as one of the fundamental pillars of our success and sustainability in the American Ginseng wholesale industry

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## BUSINESS

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in Hong Kong. Our Directors believe that our experienced and stable management team has enabled us to formulate and implement strategies effectively and to seize opportunities for the development of products and expansion into new markets. We believe that our key management team will continue to assist us in taking advantage of market opportunities, formulating sound business strategies and executing them in an effective manner.

### **We have quality and stable supply of unprocessed American Ginseng due to our specialised skill in sourcing and valuable relationships with Growers, Bulk Exporters and other suppliers**

We have established and maintained close relationships with Growers, Bulk Exporters and other suppliers during our over 20 years in the American Ginseng industry, most of whom had cooperated with us for over five years. In particular, we maintain valuable relationships with Growers of Cultivated Ginseng in Canada, where we procured the majority of our Cultivated Ginseng during the Track Record Period. Benefiting from rich forestland and climatic conditions, Canada is the world's leading exporter of Cultivated Ginseng, according to the Ipsos Report. We began sourcing Cultivated Ginseng from Growers in Canada, either directly or through a Bulk Exporter, in the early 1990s. We actively communicate with Growers to provide them with information on the latest market trends and preferences in the American Ginseng industry. In order to foster stronger relationships with the top Growers, we invite them to Hong Kong for visits on a yearly basis. We believe that our position as a market leading wholesaler of American Ginseng and our efforts to maintaining and enhancing our relationships with Growers have enabled us to secure a stable supply of quality unprocessed American Ginseng for our customers, which has kept our customers coming back to us for their unprocessed American Ginseng needs year after year.

We believe that our success is also attributable to our focus and abundant experience on sourcing quality unprocessed American Ginseng. Identifying quality unprocessed American Ginseng is a specialised skill, as it is a natural product that are sorted and graded based largely on subtle physical characteristics. Furthermore, it requires abundant experience to judge the value and quality of American Ginseng. There is presently no uniform industry standard for the grading of American Ginseng, as standards vary from location to location. The knowledge of grading American Ginseng has been traditionally passed down from generation to generation by apprenticeship. Supported by our skilled workforce and our over 20 years of experience in the American Ginseng industry, we place a particular emphasis on identifying and securing quality American Ginseng at an early stage of harvest. We also visit Growers and Bulk Exporters of American Ginseng on a regular basis. These visits provide us an opportunity to assess the health and quality of the American Ginseng plants and enables us to monitor the quality of our American Ginseng supplies. In addition, we believe that these visits and our on-going communication and interaction with Growers enable us to gain accurate and up-to-date market information to gauge market conditions and trends, which enables us to be more responsive to market demand.

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## BUSINESS

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### **Strategically located in Hong Kong, a leading hub for import and export of American Ginseng**

From the time of our inception in the late 1980s, we have been strategically located in Hong Kong, a leading hub for exports of American Ginseng. According to the Ipsos Report, in 2013, around 90.3% of Canada's American Ginseng exports, 45.9% of the United States' American Ginseng exports, and 78.7% of China's American Ginseng exports were destined to Hong Kong. International exporters of American Ginseng have regarded Hong Kong as a top destination for their American Ginseng in large part due to Hong Kong's access to the Southeast Asian markets for American Ginseng as well as its favourable import and export policies. Hong Kong imposes no tariffs or quotas on imports and exports of American Ginseng, nor does it impose value added tax, general services taxes or other surcharges on the sale of American Ginseng. These advantages, coupled with Hong Kong's own bustling market for Chinese medicine in areas such as Sheung Wan, have made Hong Kong an especially attractive location for the wholesaling of American Ginseng.

Benefitting from Hong Kong's position as a leading hub for the import and export of American Ginseng and our position as a market leading wholesaler of American Ginseng in Hong Kong, we believe that we are well-positioned to capitalise on the market opportunities in the American Ginseng industry as a result of increasing awareness of traditional Chinese medicine and interest in American Ginseng products. Our retail outlet is located in the bustling market area of Sheung Wan's Bonham Strand West, which is in close proximity to Des Voeux Road West, commonly known as "Dried Seafood Street" (海味街). We believe our presence in such a traditional area dominated with specialty stores selling American Ginseng and cubilose, among other things, is a testament to our leading market position in the American Ginseng industry and instrumental to our success in building the profile of our Hang Fat (恒發) brand.

### **OUR BUSINESS STRATEGIES**

In order to enhance our competitiveness and achieve sustainable business growth, we plan to pursue the following strategies:

#### **Strengthen purchasing power and continue to source quality American Ginseng from Growers and Bulk Exporters**

We believe that our future growth is dependent, to a large extent, on our ability to continue to secure stable supplies of quality unprocessed American Ginseng from Growers and Bulk Exporters to support our sales growth and capture more customer demand for American Ginseng. Therefore, we plan to continue building upon our relationships with our network of Growers and Bulk Exporters to maintain our market leading position in securing stable supplies of quality unprocessed American Ginseng. In particular, we seek to strengthen our purchasing power for Wild Ginseng to further consolidate our market share and attain a market leadership position in this regard. In this regard, we will continue to communicate with Growers and Bulk Exporters on a regular basis with a view to being responsive to their concerns and providing them with information on the latest market trends and preferences of the American Ginseng industry. To facilitate more efficient logistics and lower shipping costs, we will continue to allow Growers to consolidate their shipments of American Ginseng together for export using the Canadian Bulk Exporter. Furthermore, given the importance of hands-on training in the American Ginseng industry, we will continue to train and develop our staff to identify quality American Ginseng to ensure that this knowledge is maintained and to sustain our access to quality supplies of American Ginseng going forward.

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### **Enhance brand image and promotion of the use of American Ginseng for health conscious consumption**

We believe that our future growth will depend, in part, on our ability to successfully develop and promote our Hang Fat (恒發) brand. We have registered three trademarks in Hong Kong and intend to actively develop and maintain our Hang Fat (恒發) brand. We are currently a member of the Po Sau Tong Ginseng & Antler Association Hong Kong Limited (香港參茸藥材寶壽堂商會), one of the oldest ginseng and antler associations in Hong Kong, and we had supported an exhibition and seminar in relation to ginseng organised by the Hong Kong Chinese Medicine Industry Association in 2011. To further enhance our Hang Fat (恒發) brand's profile, we will continue to participate in such activities under the Hong Kong Quality Tourism Services Scheme and in national and international conferences and trade fairs such as the Food Expo and the International Conference & Exhibition of the Modernisation of Chinese Medicine & Health Products organised by the Hong Kong Trade Development Council. If appropriate opportunity arises in the future, we will continue to sponsor American Ginseng research projects, similar to the research conducted for "A Detailed Study of American Ginseng"\* (《細說花旗參》), a book on American Ginseng authored by representatives from the Hong Kong Baptist University School of Chinese Medicine (香港浸會大學中醫藥學院) in January 2012 and sponsored by our Company. We believe that these efforts will further raise public awareness of our Hang Fat (恒發) brand and further promote the use of American Ginseng for health conscious consumption and in turn simulate the continued growth in market demand that ultimately drive our sales.

### **Leverage on leading market position to diversify product offerings and expand our retail network**

We believe that, by leveraging on our access to supplies of quality unprocessed American Ginseng and existing retail outlet in Hong Kong, we will be able to expand our retail network in Hong Kong to broaden our customer base, increase our Hang Fat (恒發) brand's footprint and further drive sales growth. In order to develop our Hang Fat (恒發) brand and expand our retail network, we plan to continue our efforts to market our products to customers in our existing retail outlet. We are also establishing new sales points, on a selective basis, in other locations in Hong Kong, in the form of store-in-store concessions to increase sales and improve our cost effectiveness in our retail operation. In addition, we are actively seeking to expand our product portfolio to include new value-added American Ginseng products. We believe that these efforts will further raise public awareness of our Hang Fat (恒發) brand and support further business growth.

### **OVERVIEW OF THE AMERICAN GINSENG SUPPLY CHAIN**

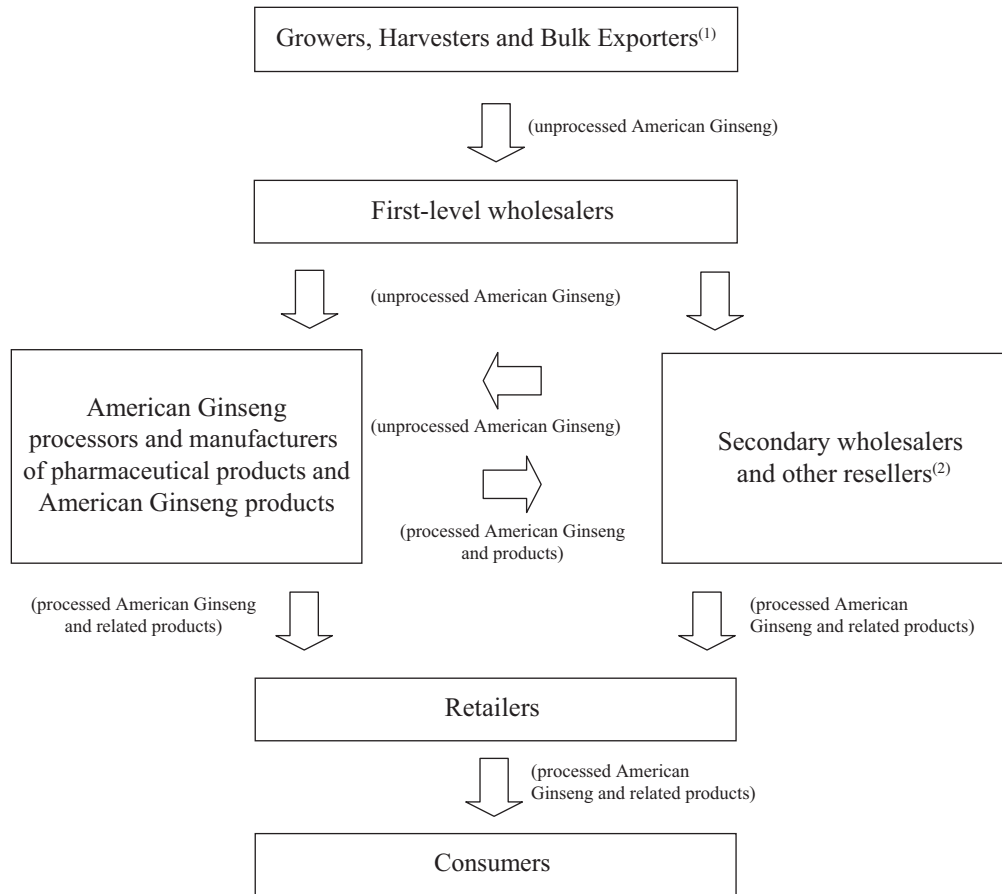
Based on our experience of over 20 years in the American Ginseng industry in Hong Kong, within the supply chain for American Ginseng, Cultivated Ginseng is sourced from Growers whereas Wild Ginseng is sourced from Harvesters. Growers and Harvesters sell the unprocessed American Ginseng to first-level wholesalers, either directly or through Bulk Exporters. Wholesalers then sell the unprocessed American Ginseng either to secondary wholesalers (potentially through multiple layers of wholesalers) which then sort, cut and grade the American Ginseng, or to processors or manufacturers of pharmaceutical products and American Ginseng products. Ultimately, the processed American Ginseng and related products are sold to consumers through retailers which operate retail

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outlets or store-in-store concessions. The diagram below illustrates the general flow of products in the American Ginseng supply chain:



*Notes:*

- (1) Bulk Exporters consolidate shipments of American Ginseng from other Growers (for Cultivated Ginseng) or Harvesters (for Wild Ginseng) for export.
- (2) Includes multiple layers of secondary wholesalers and other resellers, who will either sell unprocessed or processed American Ginseng.

### OUR BUSINESS MODEL

We are principally engaged in the sourcing and wholesaling of unprocessed American Ginseng. American Ginseng is classified into two major categories: Wild Ginseng (which is gathered from the natural environment) and Cultivated Ginseng (which is farmed). We do not cultivate or harvest American Ginseng.

Under the wholesale operation, we purchase unprocessed Cultivated Ginseng primarily from Growers located in Ontario, Canada. We also purchase processed Cultivated Ginseng from suppliers that are mainly based in Hong Kong, and unprocessed Wild Ginseng from Bulk Exporters in the United States, in the states including Ohio, Kentucky, Indiana and Pennsylvania.

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We sell our American Ginseng (both processed and unprocessed) in Hong Kong mainly to secondary wholesalers and retailers of American Ginseng who are based in Hong Kong, the PRC, Taiwan and Southeast Asia. For the years ended 31 December 2011, 2012 and 2013, approximately 99.6%, 99.2% and 99.5% of our revenue was derived from our wholesale operation, respectively. We also sell a relatively small amount of processed American Ginseng in Hong Kong through our retail outlet since 2009 and store-in-store concessions in hypermarkets and supermarket since 2013.

In addition, we carry on business as a wholesaler and retailer in Hong Kong of Other Products, comprising mainly of dried cordyceps, cubilose, abalone and fish maw. We purchase Other Products from suppliers based in Hong Kong and sell them on an ad hoc basis to secondary wholesalers and retailers who are customers of our American Ginseng.

For the years ended 31 December 2011, 2012 and 2013, approximately 0.4%, 0.8% and 0.5% of our revenue was derived from our retail operation, respectively.

### OUR PRODUCTS

We principally sell Cultivated Ginseng and, to a lesser extent, also offer Wild Ginseng and Other Products to our customers. We offer our American Ginseng to customers in bulk form or packaged form. The table below sets out a breakdown of our revenue derived from each of our principal products during the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
American Ginseng						
– Cultivated Ginseng	439,234	98.4	403,758	82.0	675,079	88.5
– Wild Ginseng	<u>5,290</u>	<u>1.2</u>	<u>38,617</u>	<u>7.8</u>	<u>50,799</u>	<u>6.7</u>
Total American Ginseng	444,524	99.6	442,375	89.8	725,878	95.2
Other Products	<u>1,856</u>	<u>0.4</u>	<u>49,901</u>	<u>10.2</u>	<u>37,092</u>	<u>4.8</u>
<b>Total</b>	<b><u>446,380</u></b>	<b><u>100.0</u></b>	<b><u>492,276</u></b>	<b><u>100.0</u></b>	<b><u>762,970</u></b>	<b><u>100.0</u></b>

### American Ginseng

American Ginseng is a long-lived herbaceous perennial, belonging to the genus *Panax* of the Araliaceae family. The dried root of the American Ginseng plant is used in traditional herbal medicines. Various studies associate the use of American Ginseng with improved short-term memory, lower fasting blood sugar in type two diabetes patients and enhanced immunity. The high levels of ginsenosides contained in American Ginseng have been observed to stabilise insulin levels and lower blood sugar. American Ginseng is also used in cosmetics and other value-added American Ginseng products such as nutrition supplements and commodity products, including beverages, chewing gum and shampoo.



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American Ginseng may be in either processed or unprocessed form. Processed American Ginseng are those American Ginseng that had been altered from their original raw form, and for those processed American Ginseng that our Group purchased or sold during the Track Record Period, they primarily included those American Ginseng that were cut and sorted into different grades according to shapes, length and width.

### *Cultivated Ginseng*

Cultivated Ginseng is a kind of American Ginseng that is grown in tilled beds under shades of artificial structures or under natural shade. For the years ended 31 December 2011, 2012 and 2013, our revenue derived from the sale of Cultivated Ginseng amounted to approximately HK\$439.2 million, HK\$403.8 million and HK\$675.1 million, respectively, representing approximately 98.4%, 82.0% and 88.5% of our revenue during the same periods, respectively.



### *Wild Ginseng*

Wild Ginseng is a kind of American Ginseng that has been collected from the natural habitat. Due to its relative scarcity and the greatest perceived medicinal value, Wild Ginseng tends to command higher market prices than Cultivated Ginseng. For the years ended 31 December 2011, 2012 and 2013, our revenue derived from the sale of Wild Ginseng amounted to approximately HK\$5.3 million, HK\$38.6 million and HK\$50.8 million, respectively, representing approximately 1.2%, 7.8% and 6.7% of our revenue during the same periods, respectively.



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### Other Products

Our Other Products mainly comprise dried cordyceps, cubilose, shiitake mushroom, black moss, dendrobium, pseudoginseng, deer tail, deer antler, Chinese angelica, abalone, sea cucumber, scallops, shark fin, fish maw and saffron. For the years ended 31 December 2011, 2012 and 2013, our revenue derived from the sale of Other Products amounted to approximately HK\$1.9 million, HK\$49.9 million and HK\$37.1 million, respectively, representing approximately 0.4%, 10.2% and 4.8% of our revenue during the same periods, respectively.

### CUSTOMERS AND SALES

#### Sales channels

We principally sell our products through our wholesale channel, and also sell some of our products at our retail outlet in Sheung Wan, Hong Kong and store-in-store concessions in selected hypermarkets and supermarket in Hong Kong. The table below sets out a breakdown of our revenue derived from our wholesale and retail operations during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	HK\$'000	revenue	HK\$'000	revenue	HK\$'000	revenue
Wholesale operation	444,562	99.6	488,401	99.2	759,092	99.5
Retail operation	<u>1,818</u>	<u>0.4</u>	<u>3,875</u>	<u>0.8</u>	<u>3,878</u>	<u>0.5</u>
<b>Total</b>	<b><u>446,380</u></b>	<b><u>100.0</u></b>	<b><u>492,276</u></b>	<b><u>100.0</u></b>	<b><u>762,970</u></b>	<b><u>100.0</u></b>

#### Wholesale operation

The customers of our wholesale operation mainly consist of secondary wholesalers and retailers of American Ginseng and Other Products mainly based in Hong Kong, the PRC, Taiwan and Southeast Asia. We have established long and stable relationships with many of our customers, most of which have been dealing with us for over five years. Revenue derived from our wholesale activities accounted for approximately 99.6%, 99.2% and 99.5% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively. We had approximately 62, 40 and 37 wholesale customers for the years ended 31 December 2011, 2012 and 2013, respectively. It is our strategy to concentrate our sales to wholesale customers with good credibility, who were able to offer us higher purchase price and/or more favourable payment terms and therefore, our number of wholesale customers decreased during Track Record Period.

We sell our products to our wholesale customers on an order-by-order basis in bulk form or packaged form. Our Directors confirm that we do not enter into any distribution or sales agency agreements with any of our wholesale customers, nor do we enter into any long-term sales contracts

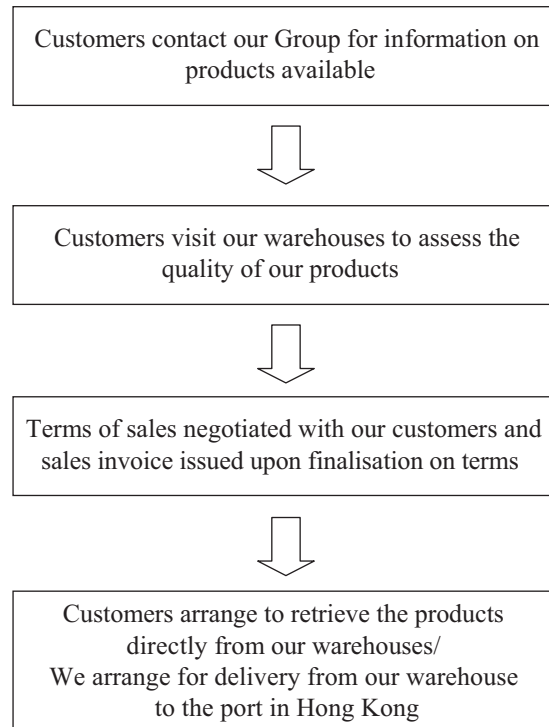
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with them. We believe that the primary advantage of our wholesale model is that it affords us flexibility in selecting which sales orders to accept, and enables us to conclude sales on terms that are acceptable to us. Our Directors are of the view that our wholesale model is an industry norm among other wholesalers in the American Ginseng industry.

The diagram below illustrates the key steps in our wholesale sales process:



When the customers of our wholesale operations have expressed interest in purchasing a certain type of product, they contact our executive Directors directly. We then arrange our wholesale customers to visit our warehouses and carry out physical inspection on the products. Negotiation on the terms of sales, such as price, quantity and payment method, is generally conducted in person or via telephone between us and our wholesale customers during the visit or shortly after visiting our warehouses. After the terms of sales have been agreed, we provide our wholesale customers with a sales invoice setting out relevant terms, including the selling price and quantity. At the time of delivery, we require the customer to acknowledge receipt of the products. We are generally not responsible for any transportation or insurance arrangements, expenses or risk after the products have been retrieved from our warehouses or are delivered to the port in Hong Kong. We do not enter into any long-term sales agreements with any of our wholesale customers.

We provide credit periods ranging from 30 to 90 days to a majority of the customers of our wholesale operation. We may grant credit periods of up to 180 days for customers we consider to be creditworthy and that make large purchases. For new customers, we do not provide a credit period, and we normally require a deposit payment with the remaining balance payable on or prior to delivery, or a letter of credit drawn in our favour for the entire balance.

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Products sold to our wholesale customers are generally stored at our warehouses in Hong Kong until they make arrangements for delivery of the products from our warehouses. We only arrange for delivery from our warehouses to the port in Hong Kong or assist certain customers to arrange for customs clearance for the export of the products out of Hong Kong upon their request, on a case-by-case basis, and at their expense. During the Track Record Period, our Group had assisted such customers in Malaysia on a number of occasions. We take no control on where our products are sold and delivered to after the products are delivered out of our warehouses or are delivered to the port in Hong Kong.

### **Retail operation**

In order to further enhance our Hang Fat (恒發) brand profile among retail consumers in Hong Kong, since 2009, we have sold Cultivated Ginseng, Wild Ginseng and Other Products to retail customers at our outlet in Sheung Wan, Hong Kong. Located in the bustling market area of Sheung Wan's Bonham Strand West, our retail outlet is situated among specialty stores selling American Ginseng and cubilose, and is in close proximity to Des Voeux Road West which is a hub for selling dried seafood in Hong Kong. Retail sales accounted for approximately 0.4%, 0.8% and 0.5% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively. Our Directors believe that our outlet in Sheung Wan provides us with additional revenue and at the same time, enables our management to have a better understanding on the end-user market of ginseng products. This information is of value during the price negotiation process with our wholesale customers.

The operating hours of our retail outlet are from 9 a.m. to 6 p.m. every Monday to Saturday. In addition to visiting our retail outlet in person, we also accept orders made by customers through telephone, facsimile or email. Sales at our retail outlet are paid for at the time of purchase by cash or credit card. Customers placing orders through telephone, facsimile or email are required to deposit the entire sales amount into our bank account and provide us with the relevant receipts before we deliver our products to their designated addresses.

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With an aim to promote our Hang Fat (恒發) brand and expand our retail presence, we have periodically set up store-in-store concessions in Hong Kong since July 2013 in various major hypermarkets and supermarkets in selective locations for the sale of our Cultivated Ginseng products. As at the Latest Practicable Date, we were operating four store-in-store concessions in different locations in Hong Kong. We enter into short term written agreements with the hypermarkets and supermarkets, which authorise us to operate a counter within a designated area in the hypermarkets and supermarkets for the sale of our Cultivated Ginseng products. The duration of the written agreements generally ranges from approximately one week to six months. To the best knowledge of our Directors, it is an industry norm among hypermarkets and supermarkets to enter into short term agreements instead of long term agreements with their trading partners. We also strategically target at the period before and during traditional Chinese festival and holiday seasons, which according to our experience, will bring higher sales and revenue. The concession fees paid by our Group were generally (i) commission calculated based on a certain percentage of our sales made by such concession; (ii) a fixed charge; or (iii) both.

We offer mainly packaged Cultivated Ginseng in our store-in-store concessions. We have set up a packaging facility in Hong Kong so that our Cultivated Ginseng can be packed into individual packets of different sizes. We also offer unpackaged Cultivated Ginseng in our store-in-store concessions, so that customers can determine the amount of Cultivated Ginseng they would like to purchase. In order to manage our future expansion in the retail business, we have established a retail operation team under our sales and marketing department to manage our store-in-store concessions.

We have adopted strict internal control procedures for handling cash at our retail outlet and store-in-store concessions, including the following:

- Cash management: All cash received by us are locked in a safe which can only be opened by our senior accounting officer.
- Sales reconciliation: We perform a weekly reconciliation of sales amount recorded in our accounting system to our cash book.
- Deposits: Cash received is deposited into our bank account on a weekly basis, unless the total amount of cash exceeds HK\$50,000, in which case cash at our retail outlet will be deposited into our bank account immediately.

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- Cash reconciliation: Reconciliation of the amount of cash deposited into our bank account to our cash book is performed on a weekly basis.



As part of our retail operation, we conduct minimal processing of American Ginseng in Hong Kong before selling the same to our retail customers by cutting, drying or sorting American Ginseng through our own employees at our warehouse in Hong Kong.

### **Revenue recognition, sales return and pricing policy**

Revenue from sale of goods is recognised when the goods are delivered and title of the goods has passed from us to the customer. It is our general policy that all sales to our customers, either through wholesaling or retailing, and all purchases of American Ginseng and Other Products, are final. Therefore, we generally do not accept any sales return from our wholesale customers and we do not return any purchased products to our suppliers. During the Track Record Period, there was no sales return from our customer and we did not make any provision in our accounts for return of goods. However, under the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong), a buyer has the right to reject the goods if the seller is in breach of a condition of the sales contract. The seller may be in breach of a condition of the sales contract, if the goods supplied by him or her are not of merchantable quality or (where the buyer has made known to the seller of a particular purpose for which the goods are being bought) the goods are not reasonably fit for that purpose.

The price of our Cultivated Ginseng, Wild Ginseng and Other Products are determined based on our purchase cost, the historical price trend and the prevailing market prices. The mark-up over the purchase cost varies on a case-by-case basis taking into account, among other things, our business relationship with the respective customers and the quality of the Cultivated Ginseng, Wild Ginseng and Other Products being sold.

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### Five largest customers

For the years ended 31 December 2011, 2012 and 2013, sales to our five largest customers, which were all customers of our wholesale operation, accounted for approximately 76.4%, 63.5% and 66.5% of our revenue, and sales to our largest customer, for the years ended 31 December 2011, 2012 and 2013, accounted for approximately 27.6%, 15.3% and 26.0% of our revenue, respectively. Our five largest customers are mainly based in Guangdong Puning Chinese Herbal Medicine Market\* (廣東普寧中藥材專業市場) which is one of the major traditional Chinese herbal medicine distribution centres in the PRC. These customers are mainly Chinese herbal medicine wholesalers and one of which is a listed company in the PRC. We have business relationships with all these customers for periods ranging from over three years to over five years. Two of these customers are within our five largest customers throughout the Track Record Period. One of the five largest customers for the year ended 31 December 2011 ceased to purchase from us since the year ended 31 December 2013 because it is no longer in the American Ginseng business. The sales to this customer amounted to approximately HK\$46.1 million and HK\$17.6 million for the year ended 31 December 2011 and 2012, respectively. Except for this customer, all of our five largest customers during the Track Record Period continue to conduct business with us after the cessation of Third Party Payment arrangements. None of our Directors or their associates nor any person who to the best information and knowledge of our Directors owned 5% or more of our issued share capital as at 31 December 2013 had any interest in any of our five largest customers for the years ended 31 December 2011, 2012 and 2013, respectively.

### CERTAIN SETTLEMENT ARRANGEMENTS THROUGH THIRD PARTY PAYERS

Certain customers (our debtors) (“**Relevant Customers**”) settled all or part of their payables to us through Third Party Payers for the years ended 31 December 2011 and 2012 (“**Relevant Period**”). During the Relevant Period, there were 17 and 15 Relevant Customers who settled certain of their payables to us through Third Party Payers for each of the two years ended 31 December 2011 and 2012, respectively. The Relevant Customers included 13 customers, who were all of our 10 largest customers for the respective year in the Relevant Period (“**Major Customers**”). The aggregate amounts settled through Third Party Payers by the Relevant Customers were approximately HK\$261.7 million and HK\$154.1 million for each of the years ended 31 December 2011 and 2012, respectively, representing approximately 58.6% and 31.3% of our revenue for each of the years ended 31 December 2011 and 2012, respectively.

Our Directors confirm that the Third Party Payments have completely ceased since September 2012 and all our customers thereafter settled their payables directly with us. Our Group had not changed its pricing policy for customers after the Third Party Payments had ceased.

### Third Party Payers

There were a total of 67 and 33 Third Party Payers for each of the years ended 31 December 2011 and 2012. We were able to identify all of these Third Party Payers except for one of them in 2011, the amount involved in this transaction was approximately HK\$130,000, representing approximately 0.05% of the total sales receipts attributable to the payments made through Third Party Payers (the “**Relevant Sales Receipts**”) during the same period. This Third Party Payer was not identified as such payment was settled by direct bank deposit and the information of the payer was not available on the bank advice and we generally would not require our customers to provide us with copies of bank-in advice or confirmation of payment instruction.

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To the best information and knowledge of our Directors, most Third Party Payers were individuals based in Hong Kong and instructed payments to be made by direct remittance from their bank accounts held with licensed banks in Hong Kong.

Further, to the best information and knowledge of our Directors, none of the Third Party Payers has any past or present relationship with our Controlling Shareholders, Directors and senior management or any of their respective associates. No discount or benefits were provided to Third Party Payers when Third Party Payments were undertaken.

### **Settlement procedures**

Prior to September 2012, upon being informed by a Relevant Customer that we could be expecting a certain sum to be paid into our bank accounts by the Third Party Payers for the settlement of our sales invoices, we would check our bank accounts for such sum. We would check and reconcile the Relevant Customer to ensure our accounts with them were properly recorded. Historically, we generally did not require our customers to provide us with copies of bank-in advice or confirmation of payment instruction and we had not had any difficulty in reconciling the amount we received in our bank accounts with the Relevant Customers. In order to enhance our internal control measures, it is our policy since 2012 to require our customers to settle our trade balances directly and provide us with the relevant bank-in advice or confirmation of payment instruction after their payments are made by bank transfers to facilitate our verification and tracking of funds. Our Directors confirm that there had been (i) no dispute as to the amounts settled by the Relevant Customers during the Relevant Period; and (ii) no request from any Third Party Payers or Relevant Customers for the repayment of any payments received by us from the Third Party Payers during the Relevant Period.

### **Reasons for the Third Party Payments**

The American Ginseng industry in Hong Kong is a traditional profession and the practice of accepting third party payments when dealing with non-Hong Kong based customers is not uncommon in the industry. To the best information and knowledge of our Directors, certain major first-level American Ginseng wholesalers in Hong Kong would accept third party payment from non-Hong Kong based customers, including those who are based in the PRC. In line with the industry practice in Hong Kong and our Company's position as a market leading wholesaler of American Ginseng strategically located in Hong Kong, our Group would only accept payments in Hong Kong in Hong Kong dollars, which is our Group's main functional currency. However, to the best knowledge and information of our Directors, (i) during the Relevant Period, all Relevant Customers were entities established in the PRC which did not hold any bank accounts in Hong Kong. The Relevant Customers therefore requested third parties who have bank accounts in Hong Kong to effect such payments on their behalf; (ii) based on their discussions with other industry players whom our Group interacts, the practice of settling payments to wholesalers in Hong Kong through third parties is not uncommon in the American Ginseng industry; (iii) we were not involved in any dispute relating to the Third Party Payers during the Track Record Period and up to the Latest Practicable Date and, there had never been any refund of money to any of our customers or Third Party Payers, or any such request for refund of money, during the Track Record Period and up to the Latest Practicable Date. Based on the due diligence work conducted by the Sole Sponsor, the Sole Sponsor concurs with our observation that the practice of settling payments to wholesalers in Hong Kong through third parties is not uncommon in the American Ginseng industry.



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### **Legal implications relating to Third Party Payments**

As advised by our PRC legal advisers, Commerce & Finance Law Offices, we had not breached any laws, rules and regulations of the PRC, including among others, the foreign exchange related laws, rules and regulations by accepting Third Party Payments, based on the following: (i) all of our transactions, including but not limited to delivery and payment of goods, were completed in Hong Kong; and (ii) under the Third Party Payments arrangements, we had no obligation to conduct and had never intervened/involved in any formalities and/or procedures with respect of the export of American Ginseng from the PRC to Hong Kong and/or the import of it from Hong Kong to the PRC and/or purchase and payment of foreign exchange in the PRC.

As set out in the paragraph headed “We are subject to various risks relating to Third Party Payments” in the section headed “Risk Factors” in this prospectus, we may be subject to various risks, such as (i) money laundering risk; (ii) possible claims from Third Party Payers for return of funds as they were not contractually indebted to our Group; and (iii) possible claims from liquidators of the Third Party Payers.

#### ***Money laundering risk***

As advised by our Hong Kong Legal Counsel, our Group may be subject to money laundering risks if we knew, had reasonable ground to believe or suspected that the settlement arrangement involved proceeds of an indictable offence under the Organised and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) (“**OSCO**”) or drug trafficking under the Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) (“**DTRPO**”). In the event that such knowledge, grounds for belief or suspicion arose, we would be obliged (1) not to deal with the funds received under such settlement arrangement; and (2) to make the relevant disclosure to a Hong Kong police officer or member of the Hong Kong Customs & Excise Department (as the case maybe). Such obligations are imposed on us by the OSCO and the DTRPO. However, unlike the ALCFFIO (as defined below), the OSCO and the DTRPO do not impose any obligation of due diligence or any obligation of record-keeping.

As further advised by our Hong Kong Legal Counsel, unlike financial institutions (such as banks) where they are imposed obligations to (i) take all reasonable measures to ensure that proper safeguards exist to mitigate the risk of money laundering; (ii) comply with the requirements relating to customer due diligence and record-keeping; and (iii) co-operate with the relevant authorities in their exercise of the relevant supervisory and investigative powers under the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) (“**ALCFFIO**”), no similar obligations of due diligence or record-keeping under the ALCFFIO are imposed on us, as we are not a financial institution as defined in the ALCFFIO.

Our Hong Kong Legal Counsel was of the view that it is highly unlikely that the court will infer from the existence of the Third Party Payments alone (and without any more), that our Group “knew”, had “reasonable ground to believe” or “suspected” (i.e. mens rea of the relevant money laundering offences) that the Third Party Payments represented proceeds of an indictable offence or proceeds of

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drug trafficking. Furthermore, the existence of Third Party Payments arrangement should not, without any more, result in violation by our Group of sections 25 and 25A of the OSCO and of the DTRPO. As advised by our Hong Kong Legal Counsel, his view is based on the following:

- (1) our Directors' representations, as confirmed in writing by those Relevant Customers who together contributed to 94.6% and 92.3%, respectively, of the total amount of the Third Party Payments in each of the two years ended 31 December 2012 ("**Key Customers**"), that (a) the Third Party Payers either had business dealings with the Key Customers or are relatives and friends of directors of the Key Customers; (b) the Third Party Payments were made by such Third Party Payers at requests of the Key Customers; (c) prior to the making of the Third Party Payments, the Key Customers had informed the Third Party Payers (and therefore they knew) that the relevant Third Party Payments to be made by them were for settling the purchase prices payable by the Key Customers to our Group; (d) prior to the making of each Third Party Payment, the Key Customers would inform our Group of its intention to settle by a Third Party Payment; (e) after the making of such Third Party Payments, there would be settlement of any outstanding amount between the Key Customers and the relevant Third Party Payer; (f) settlement of purchase prices by way of Third Party Payments was common in the dried food industry; (g) our Group was not involved in the settlement process and related procedures between the Key Customers and the relevant Third Party Payer; (h) the Third Party Payment arrangements have ceased and/or been terminated by the date of the respective written confirmations; (i) the Key Customer has no dispute with our Group or any of the Third Party Payers in respect of the Third Party Payment arrangements; (j) the Key Customer would make full compensation to our Group if our Group is to suffer any loss or damage by reason of the Third Party Payments arrangement; and
- (2) the confirmation of our Directors that our Group had (and still has) no knowledge, reasonable ground to believe or suspect that any of the Third Party Payers was a criminal or drug trafficker.

As all the funds from Third Party Payers were remitted or deposited through licensed banks in Hong Kong which are subject to requirements to put in place reasonable measures to ensure that proper safeguards exist to mitigate the risk of money laundering and to impose requirements relating to customer due diligence and record-keeping, our Directors consider that the money laundering risk is remote and does not pose any substantial risk to our business. To the best information and knowledge of our Directors, there have been no suspicious transactions identified during the Track Record Period and up to the Latest Practicable Date.

### *Possible claims from Third Party Payers*

Given there is no contractual relationship between the Third Party Payers and us, subject to the opinion of our Hong Kong Legal Counsel mentioned below, the Third Party Payers may claim against us for the return of the respective Third Party Payments. Our Directors consider such risk is remote because if a Third Party Payer remits or deposits a fund to us by mistake and would like us to refund the relevant Third Party Payment to it, it would have notified the bank or us shortly after

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the remittance or deposit was made. During the Track Record Period and up to the Latest Practicable Date, we have not received any such request or paid any interest to any Third Party Payer. Furthermore, to the best knowledge and information of our Directors and as confirmed by the Key Customers and certain Third Party Payers, the Third Party Payers were aware that the Third Party Payments were used to discharge debt owed to our Group by the Relevant Customers and the Relevant Customers have settled their transactions with the relevant Third Party Payers.

### *Possible claims from liquidators of the Third Party Payers*

Subject to the opinion of our Hong Kong Legal Counsel mentioned below, there may also be possible claims from liquidators of the Third Party Payers if the Third Party Payers were to become insolvent and were presented with a winding up petition or a bankruptcy petition. In the case of a compulsory liquidation of a company or a bankruptcy of an individual commenced in Hong Kong, the liquidator may look into the circumstances where the Third Party Payments were made. Dispute may arise when the liquidator considers that any of the Third Party Payments (made within six months prior to date of presentation of the winding up or bankruptcy petition or two years prior to date of presentation of the winding up or bankruptcy petition for payments made to an associate of the Third Party Payer) is susceptible to constituting an unfair preference under sections 266 to 266B of the Cap. 32 Companies (WUMP) Ordinance or section 50 to section 51B of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong). None of the members of our Group was or is an associate of any Third Party Payers.

In addition, as advised by our Hong Kong Legal Counsel, even if claims were brought by any Third Party Payer (or his, her or its trustees in bankruptcy or liquidators) for the recovery of the relevant Third Party Payments made, such claims cannot prevail as a matter of Hong Kong law. Our Hong Kong Legal Counsel's opinion is given based on:

- (1) the principle in the *Takahashi* case (a decision handed down by the Hong Kong Court of Final Appeal in 2011) that “*it is well-established that where A (being the payer), with B (being a third party)’s authorisation or consent, pays C (being the payee) money which discharges a debt owed by B to C, C has given good consideration for that payment, precluding any claim by A to recover the money from C on the basis of mistake or total failure of consideration*”;
- (2) the confirmations and/or representations made by our Directors, Key Customers and Third Party Payers as set out in the sub-sections headed “Money Laundering Risk” and “Possible Claims from Third Party Payers” above; and
- (3) the reason that even if the relevant Third Party Payments were made as a result of mistake, duress, undue influence and/or total failure of consideration, our Group had provided good consideration for such payments (i.e. the discharge of the debts in relation to the purchase prices), precluding thereby (on the principle in the *Takahashi* case) any claim by the Third Party Payers for the recovery of any Third Party Payment from our Group (though not precluding a claim by any such Third Party Payer against the Relevant Customers).

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Based on the opinion of our Hong Kong legal Counsel mentioned above, our Directors consider that the risk of possible claims from liquidators of the Third Party Payers is remote. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not received any claims from liquidators of the Third Party Payers. As advised by our Hong Kong Legal Counsel, the statutory time limit within which such claim must be brought against our Group is six years from the time of the relevant payment.

Furthermore, indemnity relating to losses arising from Third Party Payments has been provided by our Controlling Shareholders, for details, please refer to the paragraph headed “Estate duty, tax and other indemnities” in Appendix V to this prospectus.

### **Cessation of Third Party Payments**

Since the cessation of all Third Party Payment arrangements in September 2012, we had put in place internal control measures to disallow customers to settle their payments through third parties. We have clearly stated on our sales invoices to all customers that we do not accept any payment through third parties, other than such changes to our sales terms which were purely to accommodate our cessation to accept customers’ settlement through Third Party Payments, there were no material change in our sales terms. After all Third Party Payment arrangements have ceased in September 2012, 11 out of the 13 Major Customers continue to purchase from our Group, and make payments to us by cheque or telegraphic transfer. Our Directors are aware that one of these two Relevant Customers who ceased to purchase from us is no longer in the American Ginseng business. For the years ended 31 December 2011, 2012 and 2013, our sales to the Relevant Customers amounted to approximately HK\$404.4 million, HK\$442.7 million and HK\$643.2 million, respectively, which accounted for approximately 90.6%, 89.9% and 84.3% of our revenue, respectively. All of the Major Customers agreed to indemnify our Group and our Shareholders from any losses arising from Third Party Payments. Our Controlling Shareholders have also agreed to indemnify us for any losses arising from Third Party Payments.

For details of internal control measures relating to the monitoring of Third Party Payments and detecting and reporting of money laundering issues, please refer to the sub-section headed “Internal Controls” below.

In view of the aforesaid, our Directors confirm that the cessation of Third Party Payment does not have any material adverse impact on the operations of our Group.

### **MARKETING AND PROMOTION**

Our sales personnel are responsible for communicating and liaising with our customers, exploring opportunities for new orders and following up on existing orders. We have also established a sales and marketing department to manage our advertising and promotion activities.

We are actively exploring opportunities to develop and market our Hang Fat (恒發) brand to our customers. For example, we have participated in the Hong Kong Quality Tourism Services Scheme and have been awarded a Certification Mark in the “Retail Shops” category for our retail outlet. We supported an exhibition and seminar in relation to ginseng organised by the Hong Kong Chinese

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Medicine Industry Association in 2011. Furthermore, with an aim to upgrade our Hang Fat (恒發) brand profile, we help raise funds for Wai Yin Association, a charitable institution formed by former Miss Hong Kong Beauty Pageant titleholders and finalists, by donating Wild Ginseng so that it can be auctioned off. Additionally, to further enhance our Hang Fat (恒發) brand's profile, we will continue to participate in national and international conferences and trade fairs such as the Food Expo and the International Conference & Exhibition of the Modernisation of Chinese Medicine & Health Products organised by the Hong Kong Trade Development Council.

We have also contributed to the research in respect of American Ginseng through our sponsorship of "A Detailed Study of American Ginseng"\* (《細說花旗參》), a book on American Ginseng published by the Hong Kong Baptist University School of Chinese Medicine (香港浸會大學中醫藥學院) in January 2012. We believe that these efforts will further raise public awareness of the uses and potential health benefits of American Ginseng.

We will continue to promote publicity and brand awareness by advertising and collecting market intelligence at our store-in-store concessions in selected hypermarkets and supermarkets in Hong Kong.

### **PURCHASING**

#### **American Ginseng**

We are primarily engaged as a first-level American Ginseng wholesaler in the sourcing of unprocessed American Ginseng, which comprises Cultivated Ginseng and Wild Ginseng. We do not cultivate or harvest American Ginseng. We rely on Growers, Bulk Exporters and other suppliers for all of our purchases of Cultivated Ginseng and Wild Ginseng.

We purchase unprocessed Cultivated Ginseng mainly from Growers located in Ontario, Canada. These unprocessed Cultivated Ginseng are washed, dried and packaged by the Growers before they are shipped to Hong Kong. We also purchase processed Cultivated Ginseng from suppliers that are mainly based in Hong Kong. For the years ended 31 December 2011, 2012 and 2013, we purchased approximately HK\$206.6 million, HK\$522.0 million and HK\$662.8 million of Cultivated Ginseng, respectively, with approximately 90.5%, 92.8% and 88.3% of our Cultivated Ginseng purchased from Growers, respectively.

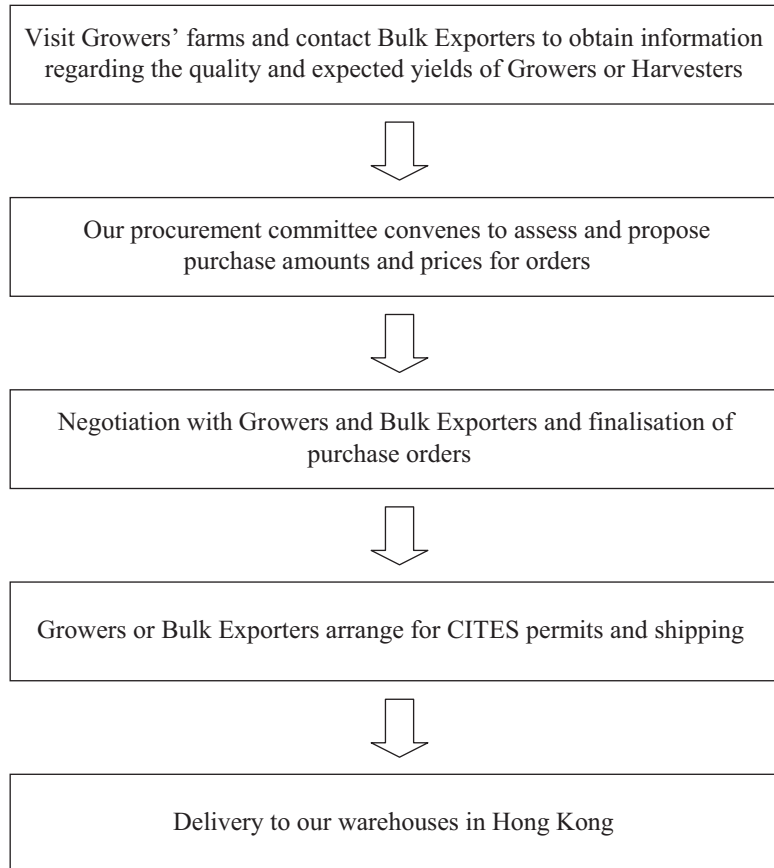
We purchase unprocessed Wild Ginseng mainly from Bulk Exporters located in the United States, including Ohio, Kentucky, Indiana and Pennsylvania. We also purchase processed Wild Ginseng from suppliers that are mainly based in Hong Kong. For the years ended 31 December 2011, 2012 and 2013, we purchased approximately HK\$3.5 million, HK\$29.9 million and HK\$121.1 million of Wild Ginseng, respectively, with approximately 84.9%, 98.5% and 97.6% of our Wild Ginseng purchased directly from Bulk Exporters, respectively.

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The diagram below illustrates the general steps in our purchasing process for unprocessed Cultivated Ginseng and Wild Ginseng from suppliers in Canada and the United States.



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The diagram below illustrates the general steps in our purchasing process for Cultivated Ginseng, Wild Ginseng and Other Products purchased in Hong Kong.



The harvest season is generally from the last quarter of each calendar year to the first quarter of the following calendar year. Early in the harvest season, Mr. Jeffrey Yeung, our executive Director, and our procurement personnel visit various Cultivated Ginseng farms in Canada to directly assess and obtain information regarding the production volume and quality of Cultivated Ginseng of each farm. For Wild Ginseng, our procurement personnel will contact the Bulk Exporters directly to collect information on the selling price and quantity of Wild Ginseng harvested. Through our site visits, we communicate with Growers and Bulk Exporters to assess the quality of the Cultivated Ginseng and Wild Ginseng that are on offer.

The information gathered from the site visits and communications with Growers and Bulk Exporters assist us in making purchase decisions in respect of our Cultivated Ginseng and Wild Ginseng. Our executive Directors and representatives from our sales and marketing department and accounting and finance department will review each individual Grower based on its expected selling price, production volume and product quality and make procurement decisions. Mr. Jeffrey Yeung, and our procurement personnel will contact each selected Grower (for Cultivated Ginseng, either directly or through a Bulk Exporter) or Bulk Exporter (for Wild Ginseng) to confirm the selling price, purchase amount, method of delivery and credit and payment terms. The Growers or Bulk Exporters are responsible for washing, drying and packaging of the Cultivated Ginseng and Wild Ginseng before they are shipped to Hong Kong.

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Apart from purchasing Cultivated Ginseng and Wild Ginseng directly from Growers and Bulk Exporters, we also purchase processed Cultivated Ginseng and Wild Ginseng on an ad hoc basis mainly from suppliers based in Hong Kong. We will visit their warehouses, or examine product samples provided by them, to inspect their product quality. Negotiation on the terms of sales, such as price, quantity, delivery method and payment schedule, is generally conducted in person or via telephone calls between us and our suppliers during the visit or shortly after visiting their warehouses. We will be provided with a sales invoice after the terms of sales have been agreed and our suppliers are responsible for delivering the products to our warehouses in Hong Kong. We usually settle the payment for our purchases by bank transfer.

The purchase price of American Ginseng is generally affected by the quality, supply and demand, historical price trend and seasonality. It is also affected by currency fluctuations as we settle the payment for our purchase of American Ginseng from Canada in CAD and the U.S. in USD. We have conducted an analysis to determine our exposure to changes in our cost due to currency fluctuations. For further details, please refer to the section headed “Financial Information – Quantitative and Qualitative Information about Market Risks – Currency risk” in this prospectus. Fluctuations in the costs of the American Ginseng we purchase and our inability to pass on any such increases to our customers may materially and adversely affect our costs of sales, gross profit and gross profit margin. For further details, please refer to the section headed “Risk Factors – Risks Relating to our Business”.

Our purchases tend to be relatively low in the period between April and September each year and tend to increase in the harvest season, which is generally from the last quarter of each calendar year to the first quarter of the following calendar year. In Canada, where we purchase most of our Cultivated Ginseng, the Canadian Bulk Exporter helps arrange our purchases of Cultivated Ginseng from Growers. We wire payment to the Canadian Bulk Exporter, who in turn settles payments with the Growers by cheque on our behalf. For the years ended 31 December 2011, 2012 and 2013, the Canadian Bulk Exporter settled approximately HK\$22.2 million, HK\$58.7 million and HK\$132.3 million of payments with the Growers on our behalf, respectively, which represent approximately 11.3%, 11.6% and 18.4% of our total purchase from Growers, respectively. For the years ended 31 December 2011, 2012 and 2013, the amount of fees paid to the Canadian Bulk Exporter amounted to approximately HK\$1.9 million, HK\$1.9 million and HK\$2.0 million, respectively. For some purchases, we pay the balance in full prior to delivery. For the vast majority of our purchases, we would make a down payment for part of the total purchase price prior to goods delivery, and we normally receive credit terms of 90 days to 150 days from Growers and Bulk Exporters for settling the remaining purchase amount. Our payments to the Canadian Bulk Exporter of its service fee are settled in regular installments.

### **Master Service Agreement with the Canadian Bulk Exporter**

We purchase Cultivated Ginseng from various Growers with the assistance of the Canadian Bulk Exporter in Canada. Since the mid 1990s, the Canadian Bulk Exporter has been assisting us with a number of matters, including consolidating shipments of Cultivated Ginseng from other Growers in Canada for shipment from Canada to Hong Kong and handling related government formalities. In view of our established relationship of over 10 years with the Canadian Bulk Exporter and our desire to further foster and develop this relationship, we entered into a master service agreement dated 1



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January 2012 with the Canadian Bulk Exporter in respect of the service arrangement between us and the Canadian Bulk Exporter (“**Master Service Agreement**”). The salient terms of the Master Service Agreement are as follows:

- **Services:** The Canadian Bulk Exporter is required to provide services to us in relation to the supply of American Ginseng from the Growers in Canada, including such services as arranging for shipments, tendering payments to Growers on our behalf, obtaining CITES permits and other required government documentation for the lawful export of the goods from Canada to Hong Kong, obtaining cargo insurance, gathering information from and fostering liaison with Growers and performing quality inspections.
- **Term and termination:** The Master Service Agreement has a term of 10 years, from 1 January 2012 to 31 December 2022. We have the unilateral right to terminate the Master Service Agreement by giving three months’ written notice. In addition, either party may terminate in the event of a material breach by the other party if the breach remains uncured for 30 days after the alleging party serves notice on the other party.
- **Exclusivity:** The Canadian Bulk Exporter is required to provide services to us on an exclusive basis and is not permitted to provide similar services to other wholesalers of American Ginseng without our consent.
- **Service fee:** We are required to pay the Canadian Bulk Exporter a service fee in relation to the Canadian Bulk Exporter’s provision of services to us. Such service fee is calculated based on the Canadian Bulk Exporter’s total costs in rendering services to us, including such costs as transportation and logistics fees, government fees, cargo insurance, telephone charges, postage and printing, in accordance with the then effective generally accepted accounting principles. The charge rate for the service fee payable by us is determined by agreement between us and the Canadian Bulk Exporter from time to time with reference to, among other factors, the complexity of the service to be provided as well as, where applicable, prevailing market rates of similar services.
- **Payment terms:** The Canadian Bulk Exporter is required to provide us with an invoice for the service fee in Canadian dollars on a monthly basis (or such other frequency as the parties may agree from time to time).
- **Credit terms:** We are provided a credit term of 90 days to 150 days after the date of receipt of the invoice from the Canadian Bulk Exporter for settlement of the service fee.

The Master Service Agreement does not include any agreement to purchase a specific quantity of Cultivated Ginseng either from the Canadian Bulk Exporter or from the Growers. All amounts of Cultivated Ginseng to be purchased are decided by us before purchase orders are placed with the relevant Growers for the purchases of the Cultivated Ginseng. The Master Service Agreement is governed by and confirmed in accordance with the laws of Hong Kong. Our Hong Kong Legal Counsel is of the view that the Master Service Agreement is legally binding and enforceable under the laws of Hong Kong.

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### **Other Products**

We purchase our Other Products from suppliers based in Hong Kong. For the years ended 31 December 2011, 2012 and 2013, we purchased approximately HK\$1.4 million, HK\$49.5 million and HK\$35.4 million of Other Products, respectively. Purchases of our Other Products are on an ad hoc basis. The purchase prices of our Other Products are generally affected by similar factors as those affecting the price of American Ginseng. When a purchase order is received from our customer, we will contact suppliers of Other Products to obtain information regarding the type and amount of Other Products they possess. We will then visit their warehouses to inspect their product quality. Negotiation on terms of sales, such as price, quantity, delivery method and payment schedule, is generally conducted in person or via telephone calls between us and our suppliers during the visit or shortly after visiting their warehouses. We will be provided with a sales invoice after the terms of sales have been agreed and our suppliers are responsible for delivering the Other Products to our warehouses in Hong Kong.

### **Relationship with our suppliers**

Our suppliers mainly comprise Growers, Bulk Exporters and suppliers of Other Products. We have established long and stable relationships with our suppliers, most of whom have been supplying to us for more than five years. For the years ended 31 December 2011, 2012 and 2013, we engaged approximately 50, 90 and 56 suppliers, respectively. As our demand for American Ginseng increased significantly in 2012 and given the limited supplies available from Growers, we had accordingly broaden the number of our suppliers from whom we source our purchases in order to fulfill such increase in demand. As it has been our plan to increase our purchase from Growers who could offer us their entire Cultivated Ginseng crop, the number of our suppliers in 2013 reduced as we ceased to purchase Cultivated Ginseng from those Growers who could only offer us part of their crop. In addition, our purchase of Cultivated Ginseng decreased in 2013 after our consideration of stock carried forward from 2012 and our business plan. Whilst we have a long-term exclusive service agreement with the Canadian Bulk Exporter to arrange for customs formalities and shipping of unprocessed Cultivated Ginseng from Canada, we have not entered into any long term supply agreements with Growers for Cultivated Ginseng or Bulk Exporters of Wild Ginseng or other suppliers and instead enter into individual purchase orders for purchases from them. All purchases are made pursuant to purchase orders. Our Directors confirm that during the Track Record Period, we did not experience any material shortages or delays from or disputes with our suppliers in relation to the quality and delivery of Cultivated Ginseng, Wild Ginseng and Other Products, nor did we experience any material adverse consequences from any unsatisfactory products supplied by them.

During the Track Record Period and up to the Latest Practicable Date, one of our customers was also our supplier, and the ultimate shareholder of one of our customers and one of our suppliers were the same. These suppliers are American Ginseng processors and secondary wholesalers of processed American Ginseng, of which we sell unprocessed American Ginseng to them and from which we also separately purchase processed American Ginseng for our retail operation or on an ad hoc basis for certain wholesale customers. As we only conduct minimal processing of American Ginseng, our Directors are of the opinion that it is more cost-effective to purchase processed American Ginseng from third parties instead of maintaining large-scale in-house processing facilities, so that we are able

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to focus on our core business of the wholesaling of unprocessed American Ginseng. Our Directors confirm that none of the unprocessed American Ginseng we sold to these suppliers were conditional on their sale of the corresponding amount of processed American Ginseng to us. For the years ended 31 December 2011, 2012 and 2013, purchases from these suppliers amounted to approximately HK\$12.1 million, HK\$64.8 million and HK\$77.3 million, respectively, which accounted for approximately 5.7%, 10.8% and 9.5% of our total purchase, respectively. Our sales to these suppliers for the years ended 31 December 2011, 2012 and 2013 amounted to approximately HK\$15.5 million, HK\$39.9 million and HK\$155.2 million, respectively, which accounted for approximately 3.5%, 8.1% and 20.3% of our revenue, respectively. Our gross profit generated from each of these suppliers for the years ended 31 December 2011, 2012 and 2013 amounted to approximately HK\$4.1 million, HK\$1.4 million and HK\$20.4 million, and Nil, approximately HK\$5.4 million and HK\$21.4 million, respectively, which represent approximately 4.6%, 1.7% and 11.4%, and 0%, 6.7% and 11.9% of our gross profit, respectively.

### **Five largest suppliers**

Our purchase from the five largest suppliers of our Group, which comprise Growers and Bulk Exporters as well as a supplier of our Other Products, accounted for approximately 56.6%, 40.7% and 39.2% of our total purchases for the years ended 31 December 2011, 2012 and 2013, respectively. The largest supplier of our Group, which was a Grower based in Canada for the years 2011 and 2012 and another Grower also based in Canada for the year 2013, accounted for approximately 17.3%, 12.3% and 10.4% of our total purchases for the years ended 31 December 2011, 2012 and 2013, respectively. None of our Directors or their associates nor any person who to the best information and knowledge of our Directors owned 5% or more of our issued share capital as at 31 December 2013 had any interest in any of our top five suppliers for the years ended 31 December 2011, 2012 and 2013, respectively.

## **LOGISTICS**

### **Purchasing logistics**

Customs formalities and shipping of unprocessed Cultivated Ginseng from Canada to Hong Kong are arranged by the Canadian Bulk Exporter, which is also one of the Growers from whom we purchase our unprocessed Cultivated Ginseng, that possesses the relevant export licence for exporting Cultivated Ginseng from Canada. The Canadian Bulk Exporter charges its services based on the costs incurred in arranging for the export of Cultivated Ginseng from Canada to us. Our unprocessed Cultivated Ginseng from Canada is usually delivered to Hong Kong by sea. We are responsible for all freight charges and insurance once the Cultivated Ginseng is shipped from Canada. For purchases from our suppliers of Cultivated Ginseng based in the PRC and Hong Kong, such suppliers are responsible for delivering the processed Cultivated Ginseng to our warehouses in Hong Kong. All risks and related expenses are borne by these suppliers until the products are delivered to our warehouses in Hong Kong.

Unprocessed Wild Ginseng purchased from the United States is shipped directly from the Bulk Exporters in the United States to Hong Kong. We are responsible for all freight charges and insurances once our Wild Ginseng is shipped from the United States. Suppliers of processed Wild Ginseng in Hong Kong are responsible for delivering the processed Wild Ginseng to our warehouses in Hong Kong. All risks and related expenses are borne by these suppliers until the products are delivered to our warehouses in Hong Kong.

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Suppliers of our Other Products are responsible for delivering the products to our warehouses in Hong Kong at the cost of the suppliers. All risks and related expenses are borne by our suppliers until the products are delivered to our warehouses in Hong Kong.

Our Directors confirm that we did not experience any material loss in the delivery of our products during the Track Record Period.

### **Sales logistics**

In general, we are not responsible for delivering American Ginseng or our Other Products to our customers. Our customers, or their respective agents, generally arrange to directly retrieve the products from our warehouses. Our customers are required to notify us at least three working days in advance before they or their respective agents collect the products from our warehouses. During each collection, our customers or their respective agents are required to present the original sales invoice to our warehouse staff, who will then record the date of collection and amount collected on the packing list, which is signed by our customers or their respective agents to acknowledge receipt. We only arrange for delivery from our warehouse to the port in Hong Kong or assist our customers to arrange for customs clearance for the export of the products out of Hong Kong upon their request, on a case-by-case basis, and at their expense.

### **SPECIAL IMPORT/EXPORT REQUIREMENTS UNDER CITES**

American Ginseng is classified as endangered species under CITES. The import and export of American Ginseng is subject to special requirements in countries that are members to CITES. Below is a summary of the requirements under CITES relevant to our business. For further details of these requirements, please refer to the section headed “Regulatory Overview” in this prospectus.

#### **Canada**

In Canada, CITES is enforced pursuant to the WAPPRIITA which forbids the import, export and interprovincial transportation of species listed in the CITIES appendices unless the appropriate licenses and permits have been obtained. Various Canadian government enforcement agencies, including the Canada Border Services Agency, the Canada Customs and Revenue Agency, the Canadian Food and Inspection Agency and the Royal Canadian Mounted Police, collaborate with Environment Canada to implement the treaty. In order to export American Ginseng from Canada, an exporter is required to possess an export permit pursuant to WAPPRIITA.

In addition, pursuant to the Ontario Endangered Species Act, 2007, American Ginseng can be exported from Ontario only if cultivated on land for which licence fees are payable to the OGGA.

We do not export American Ginseng from Canada to Hong Kong (or elsewhere), and are therefore not required to obtain any CITES permit for the export of American Ginseng from Canada to Hong Kong. The export of American Ginseng from Canada to Hong Kong is handled by the Canadian Bulk Exporter, who has represented that it has all relevant export certificates pursuant to WAPPRIITA and that it was in compliance with CITES regulations. During the Track Record Period, we also sold

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a small amount of American Ginseng from Hong Kong to Canada. As we are only responsible for arranging delivery from our warehouses to the port in Hong Kong as well as assist our customers to arrange for custom clearance for the export of the products out of Hong Kong, we are not subject to the import requirements pursuant to WAPPRIITA.

### **The United States**

The U.S. regulations implementing CITES classify “American Ginseng” as an Appendix II protected plant species, a designation that carries certain reporting, record keeping, and export permit requirements for any party seeking to export it from the United States. Additionally, the export of Wild Ginseng from the United States is only permitted in certain states, including Indiana, Kentucky, Ohio and Pennsylvania.

We do not export American Ginseng from the United States to Hong Kong (or elsewhere), hence we are not required to obtain any CITES permit for the export of American Ginseng from the United States to Hong Kong. The export of American Ginseng from the United States to Hong Kong is handled by Bulk Exporters, who we believe possess all relevant export certificates pursuant to the relevant U.S. laws and regulations in relation to the exportation of American Ginseng. Further, we do not export American Ginseng from Hong Kong to the United States. We are also not subject to the import requirements pursuant to the relevant U.S. laws and regulations as we do not sell American Ginseng to the United States.

### **The PRC**

Pursuant to the Regulations of the PRC on Protection of Wild Plants (中華人民共和國野生植物保護條例), the other relevant PRC regulations and the regulatory practice of the competent authorities, a series of import and export certificates or approvals (including a CITES certificate (允許進出口證明書)) and performance of other statutory formalities is required for the export of American Ginseng from and the import of American Ginseng into the PRC. Whilst we sell American Ginseng to PRC based customers and purchase it from PRC based suppliers, we had no obligation to conduct and had never intervened/involved in any formalities and/or procedures with respect to the export of American Ginseng from the PRC to Hong Kong or the import of it from Hong Kong into the PRC. All such transactions were completed in Hong Kong, and the import and export formalities are independently handled by the customers, suppliers or their designees. Therefore, we were not subject to the Regulations of the PRC on Protection of Wild Plants and other relevant PRC regulations during the Track Record Period and up to the Latest Practicable Date.

### **Hong Kong**

We import American Ginseng into Hong Kong. For all our imports of American Ginseng, we are required to obtain a CITES certificate from the relevant authorities in the country of export and (in the case of Wild Ginseng) an import licences issued by the relevant authorities in Hong Kong. To re-export a shipment of American Ginseng out of Hong Kong, a re-exporter is required to apply for a re-export licence from the Director of Agriculture, Fisheries and Conservation, which may be issued with or without conditions as the director considers appropriate. Any re-export licence obtained by the

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re-exporter shall be produced to the relevant authorities in Hong Kong before the American Ginseng is re-exported from Hong Kong. Our Directors confirm that we have obtained CITES permits for all of our imports of American Ginseng into Hong Kong. On a number of occasions during the Track Record Period, our Group also, upon specific requests from certain customers in Malaysia, arranged for the export or re-export of American Ginseng from Hong Kong. Our Directors confirm that on each of those occasions where we arranged for the export or re-export of American Ginseng from Hong Kong, we had lodged with and/or surrender to the Customs and Excise Department a re-export licence issued by the Director of Agriculture, Fisheries and Conservation as well as an export declaration.

As of the Latest Practicable Date, our Directors confirm that no legal proceedings (whether criminal or civil) have been instituted, brought or continued against us for violation or non-compliance of any relevant Hong Kong laws and regulations in respect of our imports, exports or re-exports of American Ginseng into or out of Hong Kong.

### **Other Products**

All our sales and purchases of our Other Products are conducted in Hong Kong. We do not import any of our Other Products from our suppliers, and we do not export them to any of our customers located overseas. As such, our Hong Kong Legal Counsel has advised us that we are not subject to any special import or export requirements under CITES for our Other Products.

### **LICENCES**

Certain of our products including American Ginseng are listed as Chinese herbal medicines under Schedule 2 to the Chinese Medicine Ordinance (Chapter 549 of the laws of Hong Kong) which require wholesaler and retailer of these products to hold relevant licence to conduct the relevant business. As at the Latest Practicable Date, our Group is the holder of certain licences under this Ordinance. For further details, please refer to the paragraph headed “Regulatory Overview – Chinese Medicine Ordinance” in this prospectus.

### **INVENTORY**

Our inventories mainly consist of Cultivated Ginseng, Wild Ginseng and Other Products. Our inventory policy is to maintain adequate levels of inventory without compromising our target to offer as many American Ginseng and Other Products as possible to our customers, as well as maintain sufficient levels of sellable products in our retail outlet. While there is no particular seasonality for the industry of Other Products, the American Ginseng retail industry exhibits seasonality, with the peak season being the one or two month period before the Mid-Autumn Festival in September and the Chinese New Year Festival in January or February of each year.

Although American Ginseng is perishable agricultural product, it can be stored for an extended period after drying and this has historically provided us with some degree of flexibility in terms of timing and volume of our purchases. We adopt a flexible inventory policy depending on seasonality, market price, demand and our purchasing ability. In order to estimate the purchase volume of American Ginseng for the next calendar year, we regularly review the market demand, customer’s needs and

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the amount of global supply of American Ginseng during the year. All our warehouses are equipped with air conditioners and exhaust fans to prevent spoilage. It is our policy to make provision for inventories that are damaged or deemed no longer saleable. As at 31 December 2011, 2012 and 2013, we did not make any provision for inventories.

We conduct regular inventory counts of our American Ginseng and Other Products. Our warehouse staff carries out a full count on every shipment when it arrives at our warehouses. In addition, full inventory counts are conducted at the end of each quarter and financial year, with results cross-checked against the accounting records to ensure consistency of our records.

As we generally begin purchasing American Ginseng at the beginning of the harvest season, which is usually in the last quarter of each calendar year while most of our sales are conducted in the first and second quarters of each calendar year, therefore our inventory balance at the end of each calendar year is relatively high. The balance of our inventory as at 31 December 2011, 2012 and 2013 accounted for approximately 26.5%, 53.4% and 62.1% of our total current assets, respectively, while our average inventory turnover days were 209 days, 203 days and 278 days, respectively.

### QUALITY MANAGEMENT

Although, based on the market research performed by Ipsos and to the best knowledge of our Directors, there are no set standards to determine the quality of American Ginseng, we believe that our success is in part attributable to our focus on quality American Ginseng in order to meet customer demand. Identifying quality American Ginseng is a specialised skill, as it is a natural product that sorted and graded based largely on subtle physical characteristics. There is presently no uniform industry standard for the grading of American Ginseng, as standards vary from location to location. Accordingly, the knowledge of grading American Ginseng has been traditionally passed down from generation to generation by apprenticeship.

We have established quality assurance and monitoring procedures to ensure that our products meet our quality control standards and the expectations and requirements of our customers. Our quality control begins before we place orders for American Ginseng from Growers and Bulk Exporters, as we make site visits to certain Growers and communicate with other Growers as well as the Bulk Exporters to assess the quality of the Cultivated Ginseng and Wild Ginseng being offered. The Canadian Bulk Exporter assists us in visiting Growers to assess the quality of the plants and roots at various stages in the production cycle, including growing, digging, drying, cutting and packing. Lower quality roots are identified and removed. All our incoming Cultivated Ginseng, Wild Ginseng and Other Products must be inspected by our warehouse staff when they are transported to our warehouses. In addition, we conduct annual checks at the Cultivated Ginseng farms in Canada to ensure that their cultivation process and product quality comply with our requirements. We maintain a list of creditable Growers of Cultivated Ginseng, which is updated by us annually upon our satisfaction of the quality of the American Ginseng being cultivated. Our Directors confirm that there were no material product quality issues, product recalls, major complaints against our products, or any material amount of sales return during the Track Record Period and as at the Latest Practicable Date. Meanwhile, as the assessment of quality of American Ginseng is mainly dependent on the experience and judgement of the procurement personnel, we have also provided extensive on-going training and guidance to our procurement personnel in order to ensure that we can maintain the quality of our purchases in the future.

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### COMPETITION

According to the Ipsos Report, the demand for American Ginseng has grown in recent years as a result of increase in health awareness and popularity of traditional Chinese medicine, as well as active promotions by American Ginseng associations. Our Directors believe that the barriers to enter into the American Ginseng industry are the experience and knowledge about the products and the industry is largely dependent on established relationships and trusts.

Competition in the American Ginseng wholesale industry in Hong Kong is intense because the industry is dominated by the top key players. According to the Ipsos Report, the top five American Ginseng wholesalers in Hong Kong, which included our Group, accounted for approximately 75.9% of the market share in terms of volume, and approximately 93.9% of the market share in terms of revenue in the year ended 31 December 2013. There are also new entrants in the industry, who mainly consist of businesses started by the younger generation. These newer competitors usually have gained experience working with existing unprocessed American Ginseng wholesalers before establishing their own unprocessed American Ginseng wholesale businesses. Nevertheless, we believe that we are able to compete based on, among other things, our large scale, our experienced management team and our long established relationships with our suppliers and customers. For further details of the American Ginseng wholesale industry, please refer to the section headed “Industry Overview” in this prospectus.

### EMPLOYEES

For the years ended 31 December 2011, 2012 and 2013, we had a total of 20, 20 and 25 full-time employees, respectively. As at the Latest Practicable Date, we had 24 full-time employees. The following table sets forth the number of our full time employees by department as at the Latest Practicable Date:

<b>Function</b>	<b>Total</b>
Management	3
Accounting & Finance	6
Sales & Marketing	4
Human Resources & Administration	3
Warehouse, Inventory & Logistics	2
Sorting & Packaging	6
	<hr/>
	24
	<hr/> <hr/>

As at the Latest Practicable Date, we had 4 part-time employees in our retail operation team under our sales and marketing department to manage our store-in-store concessions.

We enter into separate labour contracts with each of our employees. Our Hong Kong Legal Counsel has confirmed that the terms and conditions of the labour contracts are in compliance with the relevant Hong Kong labour laws in all material respects, respectively.



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We believe that our management policies, working environment and employee development opportunities and benefits have contributed to building good labour relations and employee retention. Our management team lays great emphasis on the personal development and success of our employees. We provide our employees with regular on-the-job supervision from senior employees to facilitate the acquisition of necessary skills. We also encourage our employees to attend external training programmes.

Our employees' remuneration generally includes salary and performance-based bonuses. We make contributions for our employees in relation to the mandatory provident funds in accordance with the applicable laws and regulations in Hong Kong. The total amount of contributions we made for the mandatory provident funds for each of the years ended 31 December 2011, 2012 and 2013 was approximately HK\$0.2 million, HK\$0.3 million and HK\$0.3 million, respectively.

### INTELLECTUAL PROPERTY RIGHTS

We recognise the importance of protecting and enforcing our intellectual property rights. We rely on various intellectual property laws, especially trademark laws, to protect our proprietary rights. Details of our intellectual property rights are more particularly set out under the paragraph headed "Intellectual property rights of our Group" in Appendix V to this prospectus.

Our Directors confirm that we have not infringed any other third-parties' intellectual property rights during the Track Record Period and up to the Latest Practicable Date that would have a material and adverse impact on our operations and financial position and, as at the Latest Practicable Date, we did not have any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

### PROPERTIES

#### Owned Properties

As at the Latest Practicable Date, we owned 11 properties in Hong Kong. Excluding the car parking spaces, the aggregate gross floor area is approximately 27,630 square feet. Among these 11 properties, 10 are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. These properties are use as offices, warehouses, residential property and car parking spaces. 5 of these 11 properties, with an aggregate gross floor area of approximately 21,758 square feet, are used as warehouses. 3 of these 11 properties, with an aggregate gross floor area of approximately 1,938 square feet, are adjacent properties acquired by us in March 2014 and are expected to be used as office after renovation is completed in September 2014 tentatively.

Since no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets, our Directors are of the view that these properties are exempted from compliance with requirements of a valuation.

The remaining 1 property is used for property activities as defined under Rule 5.01(2) of the Listing Rules which are subject to independent valuation. For further details about this property, please refer to the property valuation report as set out in Appendix III to this prospectus.

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### **Leased/Licensed Properties**

As at the Latest Practicable Date, we leased or licensed 9 properties from Independent Third Parties in Hong Kong. Excluding the five car parking spaces, the total gross floor area is approximately 4,881 square feet. We primarily lease or licence these properties for our retail operation, office, car parking spaces and staff quarter, with an area ranging from approximately 619 square feet to 2,152 square feet. The term of our lease agreements and licence agreements ranges from six months to three years. 1 of these 9 properties, with a total gross floor area of approximately 2,152 square feet, is our retail shop in Sheung Wan which comprise of a shop unit on ground floor and a storage area on the mezzanine floor. 1 of these 9 properties, with a total gross floor area of approximately 980 square feet, is currently used as office and is expected to be used as storage after new office is ready for use in September 2014 tentatively until termination of the relevant lease in June 2015.

### **ENVIRONMENTAL AND SAFETY MATTERS**

#### **Environmental Matters**

We are not involved in the growing and collection of Cultivated Ginseng and Wild Ginseng nor in the processing of Other Products that we sell, such as dried cordyceps, cubilose and abalone. As a result, we do not discharge any environmental pollutants. Hence, we did not incur any expenditure in respect of compliance with applicable environmental protection requirements during the Track Record Period, and we do not anticipate that we will incur any such expenditure in the future. Our Directors believe that the chances of encountering potential future environmental risks are minimal and therefore do not plan to undertake any additional measures to address the environmental risks.

During the Track Record Period and up to the Latest Practicable Date, we have not been fined for breaching the relevant environmental laws and regulations in Hong Kong. Our Directors consider that we are in compliance with laws and regulations related to environmental protection in Hong Kong.

#### **Safety Matters**

During the Track Record Period, we have implemented internal guidelines and reporting system for occupational health and safety related matters. Regarding the working environment for our employees, a hygiene and safe working environment is maintained at our warehouses, retail outlet and store-in-store concessions.

During the Track Record Period, none of our employees had been involved in any major accidents in the course of their employment and we had not been subject to disciplinary actions with respect to labour protection issues.

### **INSURANCE**

We take out insurance to protect our property, plant, equipment, motor vehicles, other fixed assets and inventories, against a range of contingencies, including, among others, loss, theft and damage. We also maintain employee compensation insurance for our employees in Hong Kong as required under the respective Hong Kong laws and regulations.

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The insurance premiums paid by our Group amounted to approximately HK\$0.82 million, HK\$1.42 million and HK\$1.66 million for the years ended 31 December 2011, 2012 and 2013, respectively. We did not make any insurance claims during the Track Record Period and up to the Latest Practicable Date.

We have not maintained insurance coverage for product liability. As confirmed by our Hong Kong Legal Counsel, no compulsory product liability insurance is required under Hong Kong law in respect of the sales of American Ginseng and Other Products sold by our Group. As a result, our Directors believe that our insurance coverage is adequate for our operations and is in line with the industry norm, hence it is not necessary for us to purchase any product liability insurance.

### **INTERNAL CONTROLS**

Our internal control system and procedures are designed to meet our specific business needs and to minimise our risk exposure. Operationally, we have implemented various internal control procedures to facilitate the effective operations of our business.

### **Investment properties and derivative financial instruments**

We are primarily a business that is owned by Mr. Matthew Yeung and his family members prior to Listing, and Mr. Matthew Yeung used our Group as a platform to conduct part of his personal investments during the Track Record Period. As at 31 December 2011, 2012 and 2013, we held two, one and one residential property(ies) located in Hong Kong, respectively, which was/were classified as investment properties in our financial statements. In addition, in the years ended 31 December 2011 and 2012, our Group has entered into certain derivative transactions, including principally foreign currency investment transactions, based on the instructions of Mr. Matthew Yeung. For further details of such investments, please refer to the section headed “Financial Information – Investment properties and derivative financial instruments” in this prospectus. For details of the nominal amounts, net settlement in intervals and the duration of the derivative financial instruments, net settlement terms and conditions, please refer to Note 20 to the Accountant’s Report in Appendix I to this prospectus.

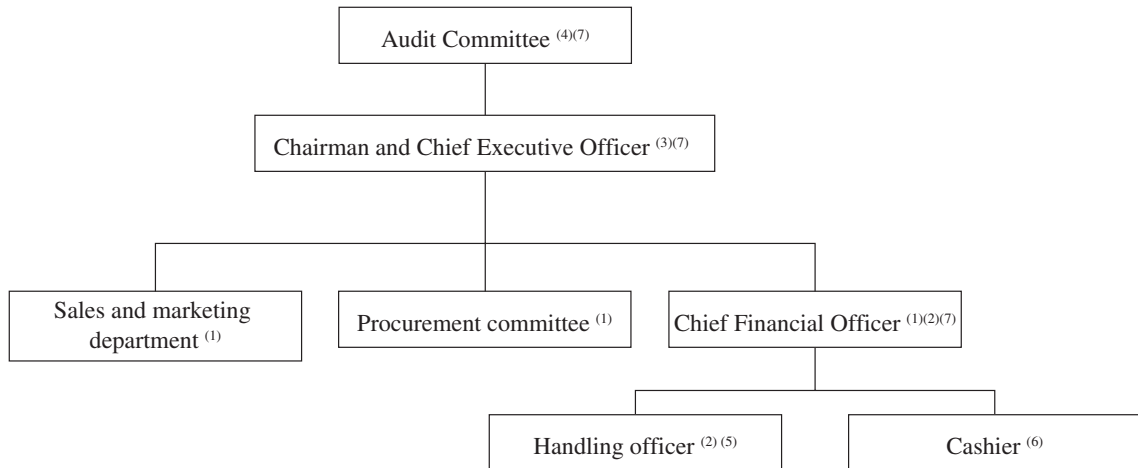
As some of our sales are denominated in RMB and our purchases of American Ginseng are mainly made in CAD or U.S. dollars, we are exposed to transactional and translational foreign currency gains or losses from our operations. In order to enhance the internal control and risk management procedures and to identify and manage the risks which we may be exposed to in handling foreign exchange and other investment transactions in the future, we have adopted enhanced internal control policies on foreign exchange and other investment transactions since February 2013. Under such internal control policies, we are only permitted to enter into foreign currency investment transactions against RMB, CAD or U.S. dollars up to the amount of our sales or purchases of the respective currencies. Our Directors believe that such internal control policies help strengthen the checks and balances in processing investment transactions and prevent our Directors or senior management from conducting investments that do not relate to our Group’s core business through our Company and

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its subsidiaries. The following chart sets forth our internal control process in relation to our foreign exchange or other investment transactions:



*Notes:*

1. By the end of each month, our sales and marketing department or our procurement committee will submit to our Chief Financial Officer the amount and details of sales or purchases made during the month that are denominated in foreign currencies.
2. Our Chief Financial Officer will consider the foreign currency risk which our Group will be exposed to and decide an appropriate foreign currency investment proposal. Our Chief Financial Officer will then designate a handling officer to obtain term sheets from prospective banks.
3. The foreign currency investment proposal, together with the proposed term sheet, will be submitted to our Chairman and our Chief Executive Officer for review and approval.
4. When the foreign currency investment proposal and the proposed term sheet are approved by our Chairman and our Chief Executive Officer, they will be submitted to our Audit Committee for further review and approval.
5. Once the foreign currency investment proposal and the proposed term sheet are approved by our Audit Committee, our handling officer will confirm the term sheet with the respective bank.
6. All payments for foreign currency and other investment transactions are handled by our cashier. All payments must be signed and approved by at least two executive Directors.
7. Our Chief Financial Officer will prepare a report on all outstanding foreign currency investment transactions by the end of each month, which will be submitted to our Chairman, our Chief Executive Officer and our Audit Committee for review and approval.

We disposed one of our investment properties in April 2012 and have ceased entering into foreign currency financial instruments since December 2012. In addition, we do not have any plans to purchase any investment properties and no further derivative financial instruments had been entered into as at the Latest Practicable Date. Save for forward currency investment transactions which our Group may enter into in order to mitigate our exposure to foreign currency fluctuations, our Group does not intend to make further investments that do not relate to our Group's core business after Listing.

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### **Third party payment arrangements**

We do not accept and have not accepted Third Party Payments since September 2012. We have inserted additional terms into our sales invoices informing our customers that Third Party Payments will not be accepted and that should any of our customers settle their purchase by Third Party Payments, our customers shall be held solely responsible for any loss suffered by us arising out of any such payment arrangement.

In the event that any fund is settled by a third party on behalf of a customer, our accounting and finance department will set aside the fund, make enquiry with our banks regarding the identity of the remitter and return the fund to such party. Concurrently, our accounting and finance department will request for immediate payment from the relevant customer directly.

It is our policy to require our customers to provide us with the relevant bank transfer slips after payments are made by bank transfers for verifying and tracking of funds.

### **Other internal control measures**

We have also adopted certain internal control measures to prevent non-compliance with laws and regulations. For further details, please refer to sub-section headed “Legal Compliance and Proceedings – Internal control measures designed to prevent future non-compliance” below.

## **LEGAL COMPLIANCE AND PROCEEDINGS**

Our Directors confirm that, save for the non-compliance incidents as disclosed below, we have complied with all relevant Hong Kong laws and regulations in all material aspects and obtained all relevant approvals and certificates which are necessary for our operations. As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

### **Non-compliance matters under the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. the Cap. 622 Companies Ordinance)**

Some of our subsidiaries incorporated in Hong Kong have on various occasions not complied with certain statutory requirements under sections 111 and 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. sections 431 and 610 of Cap. 622 Companies Ordinance) as described below. Upon identification of the instances of non-compliance, we have taken corresponding steps to remedy the non-compliance incidents.

#### ***Accounts-related non-compliance matters***

Pursuant to sections 431 and 610 of the Cap. 622 Companies Ordinance (i.e. section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014), the directors of a company incorporated in Hong Kong are required to cause the profit and loss account and balance

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sheet to be made up and laid before the company and its shareholders at each of its annual general meetings. Such accounts shall be made up to a date falling not more than nine months before the date of the relevant annual general meeting. Some of our subsidiaries incorporated in Hong Kong failed to comply with this requirement due to unintended and inadvertent omission. We have submitted subsequently the requisite audited accounts for the relevant Group companies to their respective shareholders for approval either through general meetings or by way of written resolutions.

### *Annual general meeting-related non-compliance matters*

Pursuant to section 610 of the Cap. 622 Companies Ordinance (i.e. section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014), a company incorporated in Hong Kong is required in each year (except for the first 18 months after its incorporation) to hold an annual general meeting in addition to any other meetings in that year. However, a company is not required to hold such meeting if (i) everything that is required or intended to be done at the meeting (by resolution or otherwise) is done by a resolution or resolutions in accordance with the Cap. 622 Companies Ordinance (i.e. Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014); and (ii) a copy of each document (including any accounts or records) which would be required to be laid before the company at the meeting or otherwise produced at the meeting is provided to each member of the company before or at the same time as the resolution or resolutions, as the case may be, is or are provided to the member.

Some of our subsidiaries incorporated in Hong Kong failed to comply with this requirement due to absence of timely and professional advice to the relevant company on this matter. Written resolutions have subsequently been passed for the relevant Group companies to do everything that is required or intended to be done at the annual general meeting (“AGM”) and a copy of each document (including any accounts or records) which under sections 111 and 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. sections 431 and 610 of Cap. 622 Companies Ordinance), would be required to be laid before the relevant Group companies at the meeting or otherwise produced at the meeting is provided to the respective shareholder(s) of the Group companies.

Further details of the above non-compliance matters are set out in below.

### **Summary of the non-compliance matters under the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. the Cap. 622 Companies Ordinance)**

A number of our subsidiaries incorporated in Hong Kong have previously failed to comply with the statutory requirements of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. the Cap. 622 Companies Ordinance), details of which are summarised in the following tables.

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### *Accounts-related non-compliance matters*

Name(s) of our Group company(ies)	Details of non-compliance	Maximum penalty and potential financial losses for each incident of non-compliance	Relevant period of the non-compliance	Reasons for the breach(es)	Personnel involved in the non-compliance	Latest status and rectification actions taken	Monitoring process after implementation of the remedial actions
(1) HF Hong <sup>†</sup>	Failure to lay the audited accounts at HF Hong's annual general meetings and/or failure to lay audited accounts made up to a date falling not more than nine months before the date of the relevant annual general meeting under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	<p>Fine of HK\$300,000 and 12 months imprisonment</p> <p>HF Hong had obtained a court order allowing the extension of the time limit for laying of the accounts for the three years ended 31 March 2012 under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)</p> <p>Although HF Hong had failed to obtain a court order allowing the extension of the time limit for laying of the accounts for the financial years 1990 to 2009, our Hong Kong Legal Counsel is of the view that by reason of section 351A of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 900 of the Cap. 622 Companies Ordinance), no information or complaint relating to an offence under the same Ordinance might be tried if it were laid or made at any time within three years after the commission of the offence and within 12 months after the date on which evidence sufficient in the opinion of the Secretary of Justice to justify the proceedings came to his knowledge, whereby no complaint or criminal proceedings can be brought against Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu, each being a director of HF Hong, for the default in respect of any of the non-compliance of HF Hong for not laying the account for the financial years 1990 to 2009</p>	28 April 1989 to 31 March 2012	Due to unintended and inadvertent omission of the officer of HF Hong who was responsible for company secretarial and corporate administrative matters, failed to arrange for audits of HF Hong within the time period as provided for under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	<p>Mr. Matthew Yeung; Madam Fu; Mr. Jeffrey Yeung, each a director of HF Hong</p> <p>Ms. Wong Mei Kuen, Joan (ceased to be director of HF Hong on 3 July 1989), Mr. Yeung Ngan Chuen (ceased to be director of HF Hong on 23 April 1993)</p>	<p>HF Hong had obtained a court order allowing the extension of the time limit for laying of the accounts for the three years ended 31 March 2012 under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance) in March 2014</p> <p>Notwithstanding the fact that HF Hong had failed to obtain a court order allowing the extension of the time limit for laying of the accounts for the financial years 1990 to 2009, our Hong Kong Legal Counsel is of the view (1) that by reason of section 351A of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 900 of the Cap. 622 Companies Ordinance), no information or complaint relating to an offence under the same Ordinance might be tried if it were laid or made more than three years after the commission of the offence and more than 12 months after the date on which evidence sufficient in the opinion of the Secretary of Justice to justify the proceedings came to his knowledge; and (2) that no complaint or criminal proceedings can be brought against Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu, each being a director of HF Hong, because more than three years have elapsed since the relevant non-compliance</p>	<p>Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance</p> <p>An audit committee* has been established to oversee the financial reporting and internal control procedures of our Group</p>

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Name(s) of our Group company(ies)	Details of non-compliance	Maximum penalty and potential financial losses for each incident of non-compliance	Relevant period of the non-compliance	Reasons for the breach(es)	Personnel involved in the non-compliance	Latest status and rectification actions taken	Monitoring process after implementation of the remedial actions
(2) HF Holdings <sup>†</sup>	Failure to lay the audited accounts at HF Holding's annual general meetings and/or failure to lay audited accounts made up to a date falling not more than nine months before the date of the relevant annual general meeting under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Fine of HK\$300,000 and 12 months imprisonment  As HF Holdings had obtained a court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance), the director of HF Holdings does not commit an offence and he will not be liable to any fine or imprisonment under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	17 May 2010 to 31 March 2012	Due to unintended and inadvertent omission of the officer of HF Holdings who was responsible for company secretarial and corporate administrative matters, failed to arrange for audits of HF Holdings within the time period as provided for under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Mr. Matthew Yeung, director of HF-Holdings	Court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance) was obtained in May 2013	Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance  An audit committee* has been established to oversee the financial reporting and internal control procedures of our Group
(3) HF Ginseng Importer <sup>†</sup>	Failure to lay the audited accounts at HF Ginseng Importer's annual general meeting and/or failure to lay audited accounts made up to a date falling not more than nine months before the date of such annual general meeting under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Fine of HK\$300,000 and 12 months imprisonment  As HF Ginseng Importer had obtained a court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance), none of the directors of HF Ginseng Importer commits an offence and none of them will be liable to any fine or imprisonment under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	11 April 2011 to 31 March 2012	Due to unintended and inadvertent omission of the officer of HF Ginseng Importer who was responsible for company secretarial and corporate administrative matters, failed to arrange for audits of HF Ginseng Importer within the time period as provided for under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Mr. Matthew Yeung, Mr. Jeffrey Yeung, Madam Fu, each a director of HF Ginseng Importer	Court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance) was obtained in May 2013	Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance  An audit committee* has been established to oversee the financial reporting and internal control procedures of our Group
(4) Fortune Gaining <sup>†</sup>	Failure to lay the audited accounts at Fortune Gaining's annual general meeting and/or failure to lay audited accounts made up to a date falling not more than nine months before the date of such relevant annual general meeting under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Fine of HK\$300,000 and 12 months imprisonment  As Fortune Gaining had obtained a court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance), the director of Fortune Gaining does not commit an offence and he will not be liable to any fine or imprisonment under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	1 April 2010 to 31 March 2011	Due to unintended and inadvertent omission of the officer of Fortune Gaining who was responsible for company secretarial and corporate administrative matters, failed to arrange for audits of Fortune Gaining within the time period as provided for under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Mr. Matthew Yeung, director of Fortune Gaining	Court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance) was obtained in May 2013	Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance  An audit committee* has been established to oversee the financial reporting and internal control procedures of our Group



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Name(s) of our Group company(ies)	Details of non-compliance	Maximum penalty and potential financial losses for each incident of non-compliance	Relevant period of the non-compliance	Reasons for the breach(es)	Personnel involved in the non-compliance	Latest status and rectification actions taken	Monitoring process after implementation of the remedial actions
(5) Flying Century <sup>†</sup>	Failure to lay the audited accounts at Flying Century's annual general meetings and/or failure to lay audited accounts made up to a date falling not more than nine months before the date of the relevant annual general meeting under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Fine of HK\$300,000 and 12 months imprisonment  As Flying Century had obtained a court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance), none of the directors of Flying Century commits an offence and none of them will be liable to any fine or imprisonment under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	1 April 2005 to 31 March 2012	Due to unintended and inadvertent omission of the officer of Flying Century who was responsible for company secretarial and corporate administrative matters, failed to arrange for audits of Flying Century within the time period as provided for under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Mr. Matthew Yeung, director of Flying Century;  Mr. Fok Moon Tong; Thomas; Ms. Wong Mei Heung; and Ms. Ng Ching Yee, Michelle, each a director of Flying Century (all ceased to be directors of Flying Century on 6 November 2009)	Court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance) was obtained in May 2013	Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance  An audit committee* has been established to oversee the financial reporting and internal control procedures of our Group
(6) Long Xi <sup>†</sup>	Failure to lay the audited accounts at Long Xi's annual general meeting and/or failure to lay audited accounts made up to a date falling not more than nine months before the date of such annual general meeting section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Fine of HK\$300,000 and 12 months imprisonment  As Long Xi had obtained a court order allowing the extension of the time limit for laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of the Hong Kong (i.e. sections 431 and 601 of the Cap. 622 Companies Ordinance), none of the directors of the directors of Long Xi commits an offence and none of them will be liable to any fine or imprisonment under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	12 May 2010 to 31 March 2011	Due to unintended and inadvertent omission of the officer of Long Xi who was responsible for company secretarial and corporate administrative matters, failed to arrange for audits of Long Xi within the time period for under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance)	Mr. Matthew Yeung, director of Long Xi	Court order allowing the extension of the time limit for the laying of the relevant accounts under section 122 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. sections 431 and 610 of the Cap. 622 Companies Ordinance) was obtained in March 2014	Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance  An audit committee* has been established to oversee the financial reporting and internal control procedures of our Group

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### *Annual general meeting-related non-compliance matters*

Name(s) of our Group company(ies)	Details of non-compliance	Maximum penalty and potential financial loss for each incident of non-compliance	Relevant period of the non-compliance	Reasons for the breach(es)	Personnel involved in the non-compliance	Latest status and rectification actions taken	Monitoring process after implementation of the remedial actions
(1) HF Hong <sup>†</sup>	Failure to hold valid annual general meetings pursuant to section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance)	<p>Fine of HK\$50,000</p> <p>Application of HF Hong for the extension of the time limit for holding the relevant annual general meetings under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance) was dismissed in March 2014.</p> <p>However, as advised by our Hong Kong Legal Counsel, by reason of section 351A of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 900 of the Cap. 622 Companies Ordinance), no information or complaint relating to an offence under the same Ordinance might be tried if it were laid or made at any time within three years after the commission of the offence and within 12 months after the date on which evidence sufficient in the opinion of the Secretary of Justice to justify the proceedings came to his knowledge, whereby no compliant or criminal proceedings can be brought against Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu, each being a director of HF Hong, for the default in respect of any of the non-compliance of HF Hong for not holding the relevant annual general meetings</p>	28 April 1989 to 28 April 2005	The directors and the management of HF Hong did not receive competent and timely professional advice on the on-going compliance requirements under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance) from its then auditors and the company secretarial firm which were responsible for HF Hong's accounting and company secretarial matters	<p>Mr. Matthew Yeung; Madam Fu; Mr. Jeffrey Yeung, each a director of HF Hong</p> <p>Ms. Wong Mei Kuen, Joan (ceased to be director of HF Hong on 3 July 1989), Mr. Yeung Ngan Chuen (ceased to be director of HF Hong on 23 April 1993)</p>	<p>The application of HF Hong for the extension of the time limit for holding the relevant annual general meetings under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance) was dismissed in March 2014</p> <p>Notwithstanding the fact that HF Hong had failed to obtain a court order allowing the extension of the time limit for holding the relevant annual general meetings, as advised by our Hong Kong Legal Counsel, by reason of section 351A of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 900 of the Cap. 622 Companies Ordinance), no information or complaint relating to an offence under the same Ordinance might be tried if it were laid or made more than three years after the commission of the offence and more than 12 months after the date on which evidence sufficient in the opinion of the Secretary of Justice to justify the proceedings came to his knowledge and no compliant or criminal proceedings can be brought against Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu, each being a director of HF Hong, because more than three years have elapsed since the relevant non-compliance</p>	<p>Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance</p> <p>An audit committee* has been established to oversee the financial reporting and internal control procedures of our Group</p>

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Name(s) of our Group company(ies)	Details of non-compliance	Maximum penalty and potential financial loss for each incident of non-compliance	Relevant period of the non-compliance	Reasons for the breach(es)	Personnel involved in the non-compliance	Latest status and rectification actions taken	Monitoring process after implementation of the remedial actions
(2) Fortune Gaining <sup>†</sup>	Failure to hold valid annual general meetings pursuant to section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance)	Fine of HK\$50,000  As Fortune Gaining had obtained a court order allowing the extension of the time limit for holding the relevant annual general meetings under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance), the director of Fortune Gaining does not commit an offence and he will not be liable to any fine under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance)	17 March 2009 to 31 December 2011	The director and the management of Fortune Gaining did not receive competent and timely professional advice on the on-going compliance requirements under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance) from its then auditors and company secretarial firm which were responsible for Fortune Gaining's accounting and company secretarial matters	Mr. Matthew Yeung, director of Fortune Gaining	Court order allowing the extension of the time limit for holding the relevant annual general meetings under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance) was obtained in May 2013	Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance  An audit committee <sup>▲</sup> has been established to oversee the financial reporting and internal control procedures of our Group
(3) Flying Century <sup>†</sup>	Failure to hold valid annual general meetings pursuant to section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance)	Fine of HK\$50,000  As Flying Century had obtained a court order allowing the extension of the time limit for holding the relevant annual general meetings under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance), none of the directors of the Flying Century commits an offence and none of them will be liable to any fine under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance)	9 August 2008 to 8 August 2010	The directors and the management of Flying Century did not receive competent and timely professional advice on the on-going compliance requirements under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance) from its then auditors and company secretarial firm who were responsible for Flying Century's accounting and company secretarial matters	Mr. Matthew Yeung, director of Flying Century  Mr. Fok Moon Tong, Thomas; Ms. Ng Ching Yee, Michelle; Ms. Wong Mei Heung, each a director of Flying Century (all ceased to be directors of Flying Century on 6 November 2009)	Court order allowing the extension of the time limit for holding the relevant annual general meetings under section 111 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (i.e. section 610 of the Cap. 622 Companies Ordinance) was obtained in May 2013	Our Hong Kong legal adviser will assist and work closely with our Group to ensure due compliance of the statutory requirements under the Cap. 622 Companies Ordinance  An audit committee <sup>▲</sup> has been established to oversee the financial reporting and internal control procedures of our Group

<sup>#</sup> During the Track Record Period and up to the Latest Practicable Date, each of HF Hong, HF Holdings, HF Ginseng Importer, Fortune Gaining, Flying Century and Long Xi has not been charged or penalised for the above non-compliance incidents, and has not been provided for the non-compliance incidents in its financial statements as no provision is considered necessary and our Directors expect that the non-compliance incidents will not have any operational and financial impact on our Group.

<sup>▲</sup> For details of the identity, position, qualification and experience of each of the members of the audit committee, please refer the section headed "Directors and Senior Management" of this prospectus.

Given the nature and the circumstances giving rise to the above non-compliance incidents, which were principally due to unintended and inadvertent omission or the lack of relevant legal knowledge of and professional advice given to the then respective directors of HF Hong, HF Holdings, HF Ginseng Importer, Fortune Gaining, Flying Century and Long Xi in the past, our Directors and the Sole Sponsor are of the view that none of these incidents have any material adverse impact on our business and operation and none of these incidents impugn the competence of our Directors.

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### Non-compliance matters under the IRO

Pursuant to section 82A of the IRO, any person who without reasonable excuse makes an incorrect return by omitting or understating anything in respect of which he is required by the IRO to make a return, either on his behalf or on behalf of another person, or gives any incorrect information in relation to any matter or thing affecting his own liability (or the liability of any other person), if no prosecution under the IRO has been instituted in respect of the same fact, be liable to be assessed under such section to additional tax of an amount not exceeding treble the amount of tax which has been undercharged in consequence of such incorrect return, statement or information.

During the period from March 2010 to June 2013, the IRD conducted a tax audit on the Hong Kong tax affairs of HF Hong for the years of assessment from 2003/04 to 2010/11 and noted that HF Hong had been undercharged for profit tax due to:

- (i) HF Hong had applied a fixed exchange rate between CAD and HKD for the years of assessment from 2003/04 to 2007/08 for the calculation of its costs of sales without taking into consideration of the exchange rate fluctuation. Such calculation was mainly based on the advice of the then statutory auditors of HF Hong during the years of assessment from 2003/04 to 2010/11. For the year of assessment of 2008/09, after taking into account of the revised tax effect on the adjusted exchange rate and the loss derived from the then personal investment of Mr. Matthew Yeung for such year, adjusted tax overcharged was recorded and thus, no tax penalty was charged to HF Hong for the year of assessment of 2008/09; and
- (ii) HF Hong treated certain expenses and gains as tax exempted items in the original tax computation for the years of assessment of 2009/10 and 2010/11. Such expenses and gains mainly represent the relevant expenses and relevant gains derived from the then personal investments of Mr. Matthew Yeung in derivative financial instruments. The then local auditor of our Group also acted as our tax representative in handling the relevant tax matters with the IRD. The tax computation treatment of those non-exempted gains for the years of assessment of 2009/10 and 2010/11 was based on our then tax representative's advice that the loss derived from similar personal investments of Mr. Matthew Yeung for the year of assessment of 2008/09 had been treated as non-trading nature with which the IRD did not disagree. As a private company with no internal tax expertise to handle the relevant tax matters at that time, our Group heavily relied on the advice of our then tax representative and adopted the same tax computation treatment for the year of assessment 2009/10 and 2010/11. In the preparation of the tax computations of HF Hong for the year of assessment 2011/12 and 2012/13, it has taken into account the then agreed treatment of such expenses and gains with the IRD as a result of their tax audit and treated that the relevant expenses and gains as non-exempted items. Our Company confirms that HF Hong will adopt the same treatment for such expenses and gains, if any, and continue to treat them as non-exempted items, in its preparation of the tax computations for the year of assessment 2013/2014. During the Track Record Period, the changes in fair value of such Mr. Matthew Yeung's investment, which was recognised as other income, gains and losses in our financial statements, amounted to a loss of approximately HK\$3.2 million, a gain of approximately HK\$0.4 million and nil, respectively.

In addition, it was noted that HF Hong has made a late tax filing for the year of assessment of 2010/11 and the assessable profit of HF Hong for the year of assessment of 2010/11 initially assessed by the IRD was lower than HF Hong's tax computation, which was later submitted to the IRD. The late tax filing for the year of assessment of 2010/11 was a result of an inadvertent oversight of the then local auditor and the management of HF Hong.

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Due to the reasons mentioned in (i) and (ii) above, HF Hong's profit for the years of assessment from 2003/04 to 2007/08 and from 2009/10 to 2010/11 was understated and the profit tax against HF Hong was undercharged throughout the years of assessment from 2003/04 to 2010/11 (save for the year of assessment of 2008/09). As a result of such understatement and the late tax filing, the IRD had therefore imposed a tax penalty of approximately HK\$7,870,000.

In March 2013, the IRD issued additional assessment demanding final tax relating to the years of assessment and revised assessment demanding final tax for the years from 2003/04 to 2007/08 and from 2009/10 to 2010/11 against HF Hong. HF Hong has agreed with the IRD on the amount of additional tax payable of approximately HK\$11,165,000 in aggregate for the years of assessment from 2003/04 to 2007/08 and from 2009/10 to 2010/11. In June 2013, the IRD issued notice of assessment and demand for additional tax demanding the tax penalty of approximately HK\$7,870,000. We have settled the entire amount outstanding with the IRD by 3 July 2013.

Name of our Group Company	Details of non-compliance	Maximum penalty and potential financial loss for each incident of non-compliance	Relevant period of the non-compliance	Reasons for the breach	Personnel involved in the non-compliance	Latest status and rectification actions taken	Monitoring process after implementation of the remedial actions
HF Hong <sup>#</sup>	Understating the profit in respect of which it is required by the IRO to make a return and late tax filing	<p>HF Hong has agreed with the IRD on the amount of additional tax payable of approximately HK\$11,165,000 (the "Additional Tax Payable") in aggregate for the years of assessment from 2003/04 to 2007/08 and from 2009/10 to 2010/11 and tax penalty of approximately HK\$7,870,000.</p> <p>Approximately HK\$5,593,000 of the Additional Tax Payable had been recognised and adjusted in the financial statements of HF Hong prior to 31 December 2010 based on the Directors' best estimate of the tax under charged at that moment.</p> <p>Upon the agreement with IRD, in 2012 additional tax provision of HK\$4,944,000 for the years of assessment from 2003/04 to 2008/09 and HK\$628,000 for the years of assessment from 2009/10 to 2010/11 (in aggregate of approximately HK\$5,572,000 disclosed as underprovision in respect of prior year of Note 12 to the Accountants' Report) and tax penalty of HK\$8,150,000 (included other expenses, which included an over-provision of tax penalty of approximately HK\$280,000 which was proposed to be reversed in 2014) had been made accordingly and this amount has been charged to profit or loss for the year ended 31 December 2012.</p>	1 April 2003 to 31 March 2008 and 1 April 2009 to 31 March 2011	<p>HF Hong (i) had applied a fixed exchange rate between CAD and HKD for the calculation of its costs of sales without taking into consideration of the exchange rate fluctuation; (ii) took into account of non-deductible expenses; and (iii) there was a late filing for the year of assessment of 2010/11, and hence its profit for the years of assessment from 2003/04 to 2007/08 and from 2009/10 to 2010/11 was understated and the profit tax against HF Hong was undercharged throughout the years of assessment from 2003/04 to 2007/08 and from 2009/10 to 2010/11.</p>	Mr. Matthew Yeung, director of HF Hong	We have settled the entire amount outstanding with the IRD by 3 July 2013	<p>Our tax representative will assist and work closely with our Group to ensure due compliance of the statutory requirements under the IRO.</p> <p>An audit committee<sup>^</sup> has been established to oversee the financial reporting and internal control procedures of our Group</p>

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- # Save as disclosed, during the Track Record Period and up to the Latest Practicable Date, HF Hong has not been charged or penalised for the above non-compliance incidents. Further, the IRO provides that a person who has been assessed additional tax shall not be liable to be charged on the same facts with the criminal offence as stipulated by the IRO. Accordingly, our Directors expect that the non-compliance incidents will not have any operational and financial impact on our Group.
- ▲ For details of the identity, position, qualification and experience of each of the members of the audit committee, please refer the sections headed “Directors and Senior Management” of this prospectus.

Our Directors are of the view that it is unlikely that our Group will be subject to similar tax challenge from the IRD for the years of assessment after 2010/11 based on the following reasons:

- (i) HF Fong applied a variable exchange rate between CAD and HKD with reference to the then market rates since the year of assessment of 2009/10;
- (ii) HF Hong took similar non-deductible expenses and non-exempted gains into account with reference to the latest basis advised by the IRD when calculating its assessable profits after the year of assessment of 2010/11;
- (iii) the appointment of our independent non-executive Directors and our Chief Financial Officer during the preparation of the Listing;
- (iv) the enhanced internal control measures adopted by our Group; and
- (v) up to the Latest Practicable Date, our Group did not receive any enquiries from the IRD in relation to its tax filings for the years of assessment after 2010/11, our Directors are of the view that it is unlikely that our Group will be subject to similar tax challenge from the IRD for the years of assessment after 2010/11.

### **Internal control measures designed to prevent future non-compliance**

In order to improve our corporate governance and to prevent future non-compliance, we have adopted or intend to adopt the following measures:

- (i) we are currently in the process of developing various internal approval policies and procedures. In order to further enhance our internal control measures, we expect to adopt an internal audit guideline, which provides detailed internal control procedures, so as to ensure our compliance with the Listing Rules and the relevant laws and regulations;
- (ii) to avoid future occurrences of such non-compliance incidents, our Chief Financial Officer and company secretary, Ms. Yip Tak Yung, Teresa, who is an associate member of the Hong Kong Institute of Certified Public Accountants with over 8 years of extensive accounting and auditing experience, will assist our Company to ensure compliance with Cap. 622 Companies Ordinance;
- (iii) our audit committee will oversee the financial reporting and internal control procedures in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts;

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- (iv) we will engage and will continue to appoint external professional advisers, including tax representatives, legal advisers or other advisers to render professional advice as to compliance with the statutory requirements applicable to our Group from time to time after Listing. In addition, to further strengthen the knowledge of our Directors as to the relevant requirements of the Cap. 622 Companies Ordinance, our Directors have attended a training in this regard provided by our Hong Kong legal advisers on 4 March 2014. After Listing, we also plan to engage a Hong Kong legal adviser to provide training to our Directors on the latest developments of various compliance matters applicable to our Group including the Listing Rules and the Cap. 622 Companies Ordinance, from time to time, as and when needed. We have also appointed CMB International as our compliance adviser to provide advice to our Directors and management team on matters relating to the Listing Rules;
- (v) in order to prevent further tax challenge from the IRD, we had adopted, among others, the following specific internal control measures on our Group's accounting and taxation operations:
  - (a) Our accounting and finance department is responsible for handling all tax related matters of our Group and will, on a semi-annual basis, report to our audit committee on our compliance with tax laws and regulations. For further details regarding certain members of our accounting and finance department, please refer to the section headed "Directors and senior management — Senior management" of this prospectus.
  - (b) Our Chief Financial Officer and company secretary, Ms. Yip Tak Yung, Teresa, is responsible for ensuring that all tax returns have been properly and correctly filed. For further details regarding the experience and qualification of Ms. Yip, please refer to the section headed "Directors and senior management – Senior management of this prospectus.
  - (c) We will engage a new tax representative to review all of our tax returns before filing with the IRD.
  - (d) We had established comprehensive policies and procedures for the financial reporting and disclosure processes and related checklists, period-end accrual procedures and maintenance of chart of accounts.
  - (e) We had established formal corporate planning and budgetary control process.

### **Review by the Internal Control Consultant**

In preparation for the Listing, we have engaged an internal control consultant (the "Internal Control Consultant"), to conduct a comprehensive review of our Group's internal control system, including control environment, risk management, monitoring system, information and communication,

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anti-bribery procedures, information system control, financial reporting and information disclosure control, operational control. Based on our review of latest report issued by the Internal Control Consultant, we did not note any statement on findings of material weakness or material insufficiency in our Group's internal control system. The Internal Control Consultant has confirmed that we have implemented all the material recommended internal control measures in their last follow up review in their report dated 31 October 2013.

### **Views of our Directors and the Sole Sponsor**

Notwithstanding the key historical incidents disclosed in this prospectus, in view of the rectification actions taken by us, the adoption of all of the recommendations made by the Internal Control Consultant, and the enhanced internal control measures which had been adopted and implemented to the satisfaction of the Internal Control Consultant, our Directors are of the view that our Group's internal control system is adequate and effective. In view that (i) the key historical incidents was not due to dishonesty of our Directors nor for illegitimate purpose; (ii) the rectification actions taken by us, in particular, the complete cessation of the Third Party Payments in September 2012, and the enhanced internal control measures adopted and implemented to the satisfaction of the Internal Control Consultant, the Sole Sponsor concurs with our Directors' view.

Furthermore, having considered the facts and circumstances leading to the non-compliance incidents as disclosed in this section of this prospectus, their nature and materiality, the rectification actions taken and our Group's internal control measures to avoid recurrence of these non-compliance incidents, our Directors are of the view that these past non-compliance incidents do not involve any dishonesty on the part of our Directors. Furthermore, our Directors are of the view that the non-compliance incidents were due to inadvertence in which those Directors who are involved did not breach the relevant laws and regulations deliberately or intentionally. Hence, our Directors are of the view that they have the character, experience, integrity and competence and their involvement in these past non-compliance incidents do not affect their suitability to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. Further, our Board include members who are professionally qualified lawyer, Mr. Kwok Lam Kwong Larry <sup>(Note)</sup>, and professionally qualified accountant, Mr. Cheung Chung Wai Billy, both our independent non-executive Directors. They both have extensive experience in compliance matters of listed companies, and we will engage external professional advisers to advise us on compliance matters. Our Directors are of the view that the above measures will prevent future occurrence of non-compliance incidents. Based on the above, the Sole Sponsor concurs with our Directors' view.

*Note:* The appointment of Mr. Kwok Lam Kwong Larry as our independent non-executive Director will take effect on the Listing Date.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), our Company will be owned as to 75% in aggregate by Cervera, Athena Power, Dragon Jump, Ace Fame, Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu collectively. As at the Latest Practicable Date, (i) Cervera was owned as to 63% by Mr. Matthew Yeung, 30% by Mr. Jeffrey Yeung and 7% by Madam Fu; (ii) Athena Power was wholly owned by Mr. Matthew Yeung; (iii) Dragon Jump was wholly owned by Mr. Jeffrey Yeung; and (iv) Ace Fame was wholly owned by Madam Fu. Each of Cervera, Athena Power, Dragon Jump and Ace Fame is an investment holding company. As our Controlling Shareholders directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at our general meeting collectively, each of Cervera, Athena Power, Dragon Jump, Ace Fame, Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu is regarded as our Controlling Shareholders.

As at the Latest Practicable Date, none of our Controlling Shareholders or Directors controls or conducts any business which competes, or is likely to compete, either directly or indirectly, with our business.

Our Directors consider that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective associate based on the following particulars:

#### **Management independence**

Our Board comprises three executive Directors and three independent non-executive Directors. Our executive Directors are Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu. Mr. Matthew Yeung is also our founder, Chairman, Chief Executive Officer, executive Director, one of our Controlling Shareholders, the sole director of Athena Power and one of the directors of Cervera. Each of Mr. Jeffrey Yeung and Madam Fu is also one of our executive Directors, our Controlling Shareholders and one of the directors of Cervera. Mr. Jeffrey Yeung is the sole director of Dragon Jump, while Madam Fu is also the sole director of Ace Fame.

Except as disclosed above and in the section headed “Directors and Senior Management” in this prospectus, our Controlling Shareholders do not hold any directorship in our Group. Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Save as disclosed, we have our senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform its roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after Listing.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### Operation and finance independence

During the Track Record Period and up to the Latest Practicable Date, we had our own accounting and finance team and accounting system. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders.

During the Track Record Period, there are certain amounts due from Mr. Matthew Yeung, as set out in note 21 to the Accountants' Report in Appendix I to this prospectus. Such balances were unsecured, interest-free and is without fixed repayment terms. All of such balances had been settled as at the Latest Practicable Date.

Our Group has pledged buildings, investment properties and bank deposits having a carrying value of approximately HK\$387,863,000, HK\$112,007,000 and HK\$108,346,000 as at 31 December 2011, 2012 and 2013, respectively to secure general banking facilities granted to our Group. The banking facilities were also supported by corporate guarantee and/or personal guarantee and/or secured by certain assets owned by certain Directors. The relevant banks have given consent in principle to release all such personal guarantees and securities by certain assets owned by certain Directors upon Listing. As confirmed by our Directors, it is expected that there will not be any material change in the terms of such banking facilities after the release of the corporate guarantee and/or personal guarantee and/or securities provided by Directors.

Save as aforesaid, our Group does not rely on our Controlling Shareholders and/or their respective associates by virtue of financial assistance. Accordingly, there is no financial dependence on our Controlling Shareholders.

### NON-COMPETITION

#### Non-competition Undertaking

Each of our Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, our Controlling Shareholders have given an irrevocable non-compete undertaking (the "**Non-competition Undertaking**") in favour of our Company (for itself and for the benefits of its subsidiaries) on 9 June 2014 pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates and/or companies controlled by them (other than our Group):

- (i) not, directly or indirectly, be interested or involved or carry on or concern with or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group (including but not limited to the engagement in the sourcing, wholesaling and retailing of American Ginseng and Other Products) (the "**Restricted Activity**");

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (ii) not solicit any existing employee of our Group for employment by it/him/her or its/his/her associates (excluding our Group);
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to its/his/her knowledge in its/his/her capacity as our Controlling Shareholder or otherwise for any purpose of engaging, investing or participating in any Restricted Activity;
- (iv) if there is any project or new business opportunity that relates to the Restricted Activity, refer such project or new business opportunity to our Group for consideration;
- (v) not invest or participate in or carry on any project or business opportunity of the Restricted Activity; and
- (vi) procure its/his/her associates (excluding our Group) not to invest or participate in any project or business opportunity of the Restricted Activity, unless pursuant to the exception set out below.

The above undertakings (i) to (vi) are subject to the exception that any of the associates of our Controlling Shareholders (excluding our Group) are entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity, regardless of value, which has been offered or made available to our Group, provided always that information about the principal terms thereof has been disclosed to our Company and our Directors, and our Company shall have, after review and approval by our Directors (including our independent non-executive Directors without the attendance by any Director with beneficial interest in such project or business opportunities at the meeting, in which resolutions have been duly passed by the majority of our independent non-executive Directors), confirmed its rejection to be involved or engaged, or to participate or carry on, in the relevant Restricted Activity and provided also that the principal terms on which that relevant associate of our Controlling Shareholders invests, participates or engages in the Restricted Activity are substantially the same as or not more favourable than those disclosed to our Company. Subject to the above, if the relevant associate of our Controlling Shareholders decides to be involved, engaged, or participate in the relevant Restricted Activity, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to our Company and our Directors as soon as practicable.

Each of our Controlling Shareholders has unconditionally and irrevocably undertaken to us that in the event that it/he/she or its/his/her associate(s) (other than any member of our Group) (the “**Offeror**”) is given or identified or offered any business investment or commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Activity (the “**New Opportunities**”), it/he/she will and will procure its/his/her associate(s) to refer the New Opportunities to us as soon as practicable in the following manner:

- (i) each of our Controlling Shareholders is required to, and shall procure its/his/her associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunities to us, and shall give written notice to us of any New Opportunities

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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containing all information reasonably necessary for us to consider whether (a) such New Opportunities would constitute competition with the Restricted Activity; and (b) it is in the interest of our Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the “**Offer Notice**”); and

- (ii) the Offeror will be entitled to pursue the New Opportunities only if (a) the Offeror has received a notice from us declining the New Opportunities and confirming that such New Opportunities would not constitute competition with the Restricted Activity, or (b) the Offeror has not received such notice from us within 10 business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to us in the manner as set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from our independent non-executive Directors who do not have a material interest in the manner as to whether (a) such New Opportunities would constitute competition with the Restricted Activity; and (b) it is in the interest of us and our Shareholders as a whole to pursue the New Opportunities.

The Non-competition Undertaking is conditional on (i) the Listing Committee granting listing of, and permission to deal in, all our Shares in issue and to be issued under the Global Offering and our Shares which may be issued upon the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreements not being terminated in accordance with its terms or otherwise.

For the above purpose, the “**Relevant Period**” means the period commencing from the Listing Date and shall expire on the earlier of the dates below:

- (i) the date on which our Controlling Shareholders and their associates, individually or taken as a whole, ceases to be our controlling shareholders for the purpose of the Listing Rules; and
- (ii) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange.

Under the Non-competition Undertaking, each of our Controlling Shareholders has undertaken to our Group to allow our Directors and their respective representatives to have sufficient access to the records of each of our Controlling Shareholders and their respective associates to ensure compliance with the terms and conditions of the Non-competition Undertaking.

Each of our Controlling Shareholders has undertaken under the Non-competition Undertaking that it/he/she shall provide to us and our Directors from time to time (including our independent non-executive Directors) with all information necessary for the annual review by our independent

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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non-executive Directors with regard to compliance of the terms of the Non-competition Undertaking by our Controlling Shareholders and the enforcement of the Non-competition Undertaking. Each of our Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the Non-competition Undertaking in our annual report.

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to compliance and enforcement of the Non-competition Undertaking, we have adopted the following corporate governance measures:

- (i) our independent non-executive Directors shall review, at least on an annual basis, compliance and enforcement of the terms of the Non-competition Undertaking by our Controlling Shareholders;
- (ii) we will disclose any decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Non-competition Undertaking either through our annual report or by way of announcement;
- (iii) we will disclose in the corporate governance report of our annual report on how the terms of the Non-competition Undertaking have been complied with and enforced; and
- (iv) and in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Non-competition Undertaking, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

Our Board currently consists of six Directors, including three executive Directors and three independent non-executive Directors. The table below sets out certain information in respect of the members of our Board:

Name	Age	Date of joining our Group	Date of appointment as Director	Position	Roles and responsibilities	Relationship with other Director(s)
Mr. Yeung Wing Yan (楊永仁)	48	11 May 1989	18 August 2011	Chairman, Chief Executive Officer and executive Director	Corporate strategic planning and overall business development of our Group, member of each of our Remuneration Committee and Nomination Committee	Elder brother of Mr. Jeffrey Yeung and son of Madam Fu
Mr. Yeung Wing Kong (楊永鋼)	43	19 March 1992	18 August 2011	Executive Director	Operation, management and procurement of our Group	Younger brother of Mr. Matthew Yeung and son of Madam Fu
Madam Fu Fung Sau (傅鳳秀)	68	3 July 1989	4 March 2014	Executive Director	Daily operation of our Group	Mother of Mr. Matthew Yeung and Mr. Jeffrey Yeung
Mr. Wong Senta (王忠桐)	71	9 June 2014	9 June 2014	Independent non-executive Director	Chairman of each of our Remuneration Committee and Nomination Committee and member of our Audit Committee	Nil
Mr. Kwok Lam Kwong Larry (郭琳廣) (Note)	58	Listing Date	Listing Date	Independent non-executive Director	Member of our Audit Committee	Nil
Mr. Cheung Chung Wai Billy (張仲威)	51	9 June 2014	9 June 2014	Independent non-executive Director	Chairman of our Audit Committee and member of each of our Remuneration Committee and Nomination Committee	Nil

*Note:* The appointment of Mr. Kwok Lam Kwong Larry as our independent non-executive Director will take effect on the Listing Date.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Chairman, Chief Executive Officer and Executive Director

**Mr. Yeung Wing Yan** (楊永仁), aged 48, is our founder, Chairman, Chief Executive Officer and executive Director. Mr. Matthew Yeung is currently a director of each of the subsidiaries of our Company. He has over 30 years of experience in the American Ginseng industry and is primarily responsible for the corporate strategic planning and overall business development of our Group. In April 1989, Mr. Matthew Yeung set up HF Hong to source, process and trade ginseng from wholesalers for retailers in Hong Kong. HF Hong began to make direct purchases in Canada from early 1990s. Mr. Matthew Yeung is the vice chairman of 江西省旅港同鄉會(第十一屆及第十二屆) (Hong Kong Jiangxi Clansmen Association (11th and 12th sessions)). In January 2013, Mr. Yeung also became a member of 第十一屆中國人民政治協商會議江西省委員會 (Jiangxi Provincial Committee of the Chinese People's Political Consultative Conference). He was appointed as our executive Director on 18 August 2011. Mr. Matthew Yeung is the elder brother of Mr. Jeffrey Yeung and a son of Madam Fu, each being a Director. Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, Mr. Matthew Yeung will be interested in 1,389,000,000 Shares within the meaning of Part XV of the SFO, of which 1,200,000,000 Shares will be held by Cervera and 189,000,000 Shares were held by Athena Power. Mr. Matthew Yeung is a shareholder of Cervera as to 63% and one of its three directors. Mr. Matthew Yeung is also the sole shareholder and sole director of Athena Power.

### Other Executive Directors

**Mr. Yeung Wing Kong** (楊永鋼), aged 43, is our executive Director. Mr. Jeffrey Yeung is currently a director of each of HF Hong, HF Ginseng Importer, HF Importer, HF Ginseng, HF Ginseng Retail, HF Ginseng Trading, Hang Fat (2013), Greatest Maker and Greatest Summit. Mr. Jeffrey Yeung has over 20 years of experience in the American Ginseng industry and is primarily responsible for operation, management and procurement of our Group. Mr. Jeffrey Yeung joined our Group in 1989. From 1989 to 1991, he was responsible to supervise the processing and sale and purchase of American Ginseng. Since 1991, he has been responsible to procure our products from Canada and the U.S.. He contacts suppliers in Canada and the United States regularly to obtain information regarding the quality of Cultivated Ginseng and Wild Ginseng and assists in making purchase decision. Mr. Jeffrey Yeung has been a member of Po Sau Tong Ginseng & Antler Association Hong Kong Limited (香港參茸藥材寶壽堂商會有限公司) since December 1990. He was appointed as our executive Director on 18 August 2011. Mr. Jeffrey Yeung is the younger brother of Mr. Matthew Yeung and a son of Madam Fu, each being a Director. Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, Mr. Jeffrey Yeung will be interested in 90,000,000 Shares within the meaning of Part XV of the SFO and these Shares will be held by Dragon Jump. Mr. Jeffrey Yeung is a shareholder of Cervera as to 30% and one of its three directors. Mr. Jeffrey Yeung is also the sole shareholder and sole director of Dragon Jump.

**Madam Fu Fung Sau** (傅鳳秀), aged 68, is our executive Director. Madam Fu is currently a director of each of HF Hong, HF Ginseng Importer, HF Importer, HF Ginseng, HF Ginseng Retail, HF Ginseng Trading, Hang Fat (2013), Greatest Maker and Greatest Summit. Madam Fu has over

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## DIRECTORS AND SENIOR MANAGEMENT

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20 years of experience in the American Ginseng industry and is primarily responsible for the daily operation of our Group. Madam Fu joined our Group in 1989. She was appointed as our executive Director on 4 March 2014. Madam Fu is the mother of Mr. Matthew Yeung and Mr. Jeffrey Yeung, each being a Director. Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, Madam Fu will be interested in 21,000,000 Shares within the meaning of Part XV of the SFO and these Shares will be held by Ace Fame. Madam Fu is a shareholder of Cervera as to 7% and one of its three directors. Madam Fu is also the sole shareholder and sole director of Ace Fame.

### Independent Non-executive Directors

**Mr. Wong Senta** (王忠桐) *BBS*, aged 71, was appointed as our independent non-executive Director on 9 June 2014.

Mr. Wong is a founder of the group of Wong's Kong King International (Holdings) Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 532)). Such group principally engages in trading and distribution of chemicals, materials and equipment used in the manufacture of printed circuit boards and electronic products and the manufacture of electrical and electronic products for original equipment manufacturer (OEM) customers. He has been a director and chairman and chief executive officer of such group since March 1989. Mr. Wong is responsible for such group's overall management and formulation of its corporate strategies.

Mr. Wong has been an executive member (常務委員) of 第九、十及十一屆中國人民政治協商會議江西省委員會 (Jiangxi Provincial Committee of the Chinese People's Political Consultative Conference (9th, 10th and 11th Sessions)).

**Mr. Kwok Lam Kwong Larry** (郭琳廣), *BBS, JP*, aged 58, was appointed as our independent non-executive Director on and his appointment will take effect from the Listing Date. Mr. Kwok graduated from the University of Sydney, Australia with a bachelor's degree in economics and laws in May 1979 and February 1981 respectively, and a master's degree in laws in December 1986.

Mr. Kwok has been a practising solicitor in Hong Kong since May 1985, and is currently the Managing Partner, Asia Strategy & Markets of King & Wood Mallesons. Mr. Kwok has also been qualified to practise as a solicitor in New South Wales (Australia), England and Wales and Singapore in July 1981, December 1984 and January 1995 respectively. He has been a fellow member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants since February 1985 and February 1993. He has also been a member of the Institute of Chartered Accountants in England and Wales since January 2007.



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## DIRECTORS AND SENIOR MANAGEMENT

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From July 2002 to September 2011, Mr. Kwok was an independent non-executive director of Carry Wealth Holdings Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 643)). Mr. Kwok has also been serving as an independent non-executive director of Pacific Andes International Holdings Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 1174)) since July 1994, Shenyin Wanguo (H.K.) Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 218)) since March 1995, and Café de Coral Holdings Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 341)) and Starlite Holdings Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 403)) since July 2004. Mr. Kwok served as an independent non-executive director of First Shanghai Investments Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 227)) from December 1994 to March 2005. He has been re-designated as a non-executive director of First Shanghai Investments Limited since March 2005.

**Mr. Cheung Chung Wai Billy (張仲威)**, aged 51, was appointed as our independent non-executive Director on 9 June 2014. Mr. Cheung graduated from the University of Hong Kong with a bachelor's degree in social science in 1985. He also obtained a bachelor of laws degree from the University of London in 1999 and a master of laws degree from the City University of Hong Kong in 2006. He has become a fellow member of the Hong Kong Institute of Certified Public Accountants (previously known as Hong Kong Society of Accountants) and the Financial Services Institute of Australasia since July 1998 and June 2005 respectively.

Mr. Cheung has over 15 years of experience in corporate finance, corporate reorganisation and regulatory compliance. From 13 March 1995 to 15 July 2000, he worked as a manager in the SFC, an independent statutory body which regulates the securities and future markets in Hong Kong. Since September 2008, Mr. Cheung assumed a managing director role in Pan Asia Corporate Finance Limited (formerly known as SBI E2-Capital (H.K.) Limited (“**Pan Asia**”)), a corporation licensed under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO). He is responsible for overseeing all business activities of Pan Asia and Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities. Mr. Cheung is also a principal licence holder with the SFC. Mr. Cheung was the corporate secretary of Hao Tian Resources Group Limited (formerly known as Winbox International (Holdings) Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 474) from September 2005 to October 2006, Suncorp Technologies Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1063) from September 2007 to February 2011 and CIAM Group Limited (formally known as E2-Capital (Holdings) Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 378) from December 2000 to May 2008.

Save as disclosed in this prospectus, each of our Directors confirms with respect to himself/herself that: (i) he/she has not held any directorships in the last three years in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of our Company; (iii) he/she does not hold any positions in our Company or other members of our Group; (iv) he/she does not have any interests in our Shares within the meaning of Part XV of the SFO; (v) there is no other information that should be disclosed for him/her pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and (vi) there are no other matters that need to be brought to the attention of holders of securities of our Company.

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## DIRECTORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Date of joining our Group</u>	<u>Position</u>	<u>Roles and responsibilities</u>
Ms. Yip Tak Yung, Teresa (葉德容)	32	1 February 2013	Chief Financial Officer and company secretary	Finance management, compliance assurance and company secretarial matters
Ms. Ng Lai Ling (伍麗玲)	26	21 October 2009	Human resources manager	Human resources management
Ms. Ip Kwai Fong (葉桂芳)	48	3 December 2008	Financial controller	Finance management

**Ms. Yip Tak Yung, Teresa (葉德容)** CPA, aged 32, is our Chief Financial Officer and company secretary. She joined our Group in February 2013, and is responsible for finance management, compliance assurance and company secretarial matters of our Group. Ms. Yip graduated from the City University of Hong Kong with a bachelor's degree of business administration (Honours) in accountancy in November 2005. Ms. Yip has been a certified public accountant registered with the Hong Kong Institute of Certified Public Accountants since February 2010. Between August 2005 and August 2006, she was employed by Deloitte Touche Tohmatsu as a staff accountant. Since September 2006, she was re-designated as an associate at Deloitte Touche Tohmatsu. Her last position as a manager with Deloitte Touche Tohmatsu was until January 2013.

**Ms. Ng Lai Ling (伍麗玲)**, aged 26, is our human resources manager. She joined our Group in October 2009, and is responsible for human resources management of our Group. Ms. Ng graduated from The Open University of Hong Kong with a bachelor's degree of business administration in marketing in June 2011. Since October 2009, she has been working in HF Hong as the secretary to the board of directors of HF Hong and since April 2012, as the human resources manager, mainly responsible for the human resources management.

**Ms. Ip Kwai Fong (葉桂芳)**, aged 48, is our financial controller. She joined our Group in December 2008 as an accounting clerk of HF Hong where she was mainly responsible for accounting matters and procurement of HF Hong. She has become our financial controller on 3 December 2011 where she has been responsible for the procurement, finance management as well as the monitoring the cash flow of HF Hong.

To best of the knowledge, information and belief of our Directors having made all reasonable enquiries, each of the members of our senior management has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPANY SECRETARY

**Ms. Yip Tak Yung, Teresa (葉德容)**, who serves as our Chief Financial Officer, is our company secretary. The biographical information of Ms. Yip is set out above in the paragraph headed “Senior management” in this section.

### BOARD COMMITTEES

We have established the following three committees: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with their terms of reference established by our Board.

#### **Audit Committee**

We have established an audit committee on 9 June 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules.

Our audit committee has three members, namely Mr. Cheung Chung Wai Billy, Mr. Wong Senta and Mr. Kwok Lam Kwong Larry (Mr. Kwok’s appointment as a member of our audit committee will take effect on the Listing Date), all of whom are our independent non-executive Directors. The chairman of our audit committee is Mr. Cheung Chung Wai Billy.

The primary responsibilities of our audit committee include, among others, (i) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of our Group; (ii) overseeing the audit process and performing other duties and responsibilities as assigned by our Board; (iii) developing and reviewing our policies and practices on corporate governance, compliance with legal and regulatory requirements and requirements under the Listing Rules; and (iv) developing, reviewing and monitoring the code of conduct applicable to our employees and Directors.

#### **Remuneration Committee**

We have established a remuneration committee on 9 June 2014 with written terms of reference in compliance with Rule 3.25 of the Listing Rules.

Our remuneration committee has three members, namely Mr. Wong Senta, Mr. Matthew Yeung and Mr. Cheung Chung Wai Billy, of whom Mr. Wong Senta and Mr. Cheung Chung Wai Billy are our independent non-executive Directors and Mr. Matthew Yeung is an executive Director. The chairman of our remuneration committee is Mr. Wong Senta.

The primary responsibilities of our remuneration committee include, among others, (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management’s remuneration proposals with reference to our Board’s corporate goals and objectives; and (iii) making recommendations to our Board on the remuneration packages of Directors and senior management.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Nomination Committee

We have established a nomination committee on 9 June 2014 with written terms of reference in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules.

Our nomination committee has three members, namely Mr. Wong Senta, Mr. Matthew Yeung and Mr. Cheung Chung Wai Billy, of whom Mr. Wong Senta and Mr. Cheung Chung Wai Billy are our independent non-executive Directors and Mr. Matthew Yeung is an executive Director. The chairman of our nomination committee is Mr. Wong Senta.

The primary responsibility of our nomination committee is to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

### Corporate Governance Functions

The terms of reference of our Board include, among others, (i) developing and reviewing our Company's policies and practices on corporate governance and making recommendations to our Board; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring our Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) reviewing our Company's compliance with the code and disclosure in the corporate governance report.

Under Code Provision A.2.1 set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Matthew Yeung, in addition to his duties as the chairman, is also responsible for the corporate strategic planning and overall business development of our Group as the chief executive officer of our Company. Mr. Matthew Yeung is our founder who has extensive experience and knowledge in the business of our Group and his duties for overseeing our Group's operations are clearly beneficial to our Group. Since our Directors would meet regularly to consider major matters affecting operations of our Company, our Directors consider that this structure will not impair the balance of powers and authority between our Directors and the management of our Company and believe that this structure will enable our Company to make and implement decisions promptly and efficiently.

### COMPLIANCE ADVISER

Our Company has appointed CMB International as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. According to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (i) with respect to publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

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## DIRECTORS AND SENIOR MANAGEMENT

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- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date when our Company distributes its annual report in relation to its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

### COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration paid by us to our Directors, including salaries, allowances and contributions to retirement benefit scheme was approximately HK\$3,477,000, HK\$3,540,000 and HK\$5,015,000 for the years ended 31 December 2011, 2012 and 2013, respectively. Details of the arrangement for remuneration are set out in Note 11 to the Accountant's Report in Appendix I to this prospectus.

During the Track Record Period, the five individuals whose emoluments were the highest in our Group included three Directors. The aggregate amount of emoluments payable to the five highest paid individuals (including the three Directors), including salaries, allowances and contributions to retirement benefit scheme, during the Track Record Period was approximately HK\$3,904,000, HK\$4,197,000 and HK\$5,928,000, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. None of our Directors has waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable by us or any of our subsidiaries to our Directors during the Track Record Period. We estimate that we will pay an aggregate amount of approximately HK\$5,668,000 to our Directors as remuneration in respect of the year ending 31 December 2014, excluding any discretionary bonuses which may be paid to our Directors.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are set out in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

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## SHARE CAPITAL

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Assuming the Over-allotment Option is not exercised (and without taking into account of Shares to be allotted and issued pursuant to the exercise of any options to be granted under the Share Option Scheme), the authorised and issued share capital of our Company will be as follows:

*HK\$*

*Authorised:*

<u>5,000,000,000</u> Shares	<u>50,000,000</u>
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*Issued and to be issued, fully paid or credited as fully paid:*

1,000,000 Shares in issue as at the date of this prospectus	10,000
1,499,000,000 Shares to be issued under the Capitalisation Issue	14,990,000
500,000,000 Shares to be issued under the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option)	5,000,000
<u>2,000,000,000</u> Shares in issue immediately upon Listing	<u>20,000,000</u>

Assuming the Over-allotment Option is exercised (but without taking into account of Shares to be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), the authorised and issued share capital of our Company will be as follows:

*HK\$*

*Authorised:*

<u>5,000,000,000</u> Shares	<u>50,000,000</u>
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*Issued and to be issued, fully paid or credited as fully paid:*

1,000,000 Shares in issue as at the date of this prospectus	10,000
1,499,000,000 Shares to be issued under the Capitalisation Issue	14,990,000
575,000,000 Shares to be issued under the Global Offering (inclusive of Shares which may be issued pursuant to the exercise of the Over-allotment Option)	5,750,000
<u>2,075,000,000</u> Shares in issue immediately upon Listing	<u>20,750,000</u>

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## SHARE CAPITAL

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### ASSUMPTIONS

The above tables assume that the Global Offering becomes unconditional and the issue of Shares pursuant thereto is made as described therein.

The above tables, however, take no account of any Shares which may be allotted and issued by our Company pursuant to the exercise of any options that may be granted under the Share Option Scheme and of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below.

The minimum level of public float to be maintained by our Company after the Listing is 25% of the issued capital of our Company.

### RANKING

The Offer Shares and the Shares that may be issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme will rank pari passu in all respects with all other existing Shares in issue as mentioned in this prospectus, and in particular, will be entitled to all dividends and other distributions hereafter declared, paid or made on the Shares after the date of their issue save for entitlements under the Capitalisation Issue.

### ALTERATIONS OF SHARE CAPITAL

Our Company may from time to time by ordinary resolution or special resolution (as the case may be) of our Shareholders alter the share capital of our Company. For a summary of the provisions in the Articles regarding alterations of share capital, please refer to the paragraph headed “2. Articles of Association – (c) Alterations of Capital” in Appendix IV to this prospectus.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 9 June 2014. Under the Share Option Scheme, the eligible participants of the scheme, including directors, full-time employees of and advisers and consultants to our Company or our subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the Listing Date. Further details of the rules of the Share Option Scheme are set out in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- i. 20% of the aggregate nominal value of our share capital in issue immediately following completion of the Global Offering but excluding any Shares that may fall to be issued under the Over-allotment Option; and
- ii. the aggregate nominal value of our share capital repurchased by our Company (if any) pursuant to the repurchase mandate (as referred to below).

The allotment and issue of Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by our Company from time to time, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, or on the exercise of the Over-allotment Option or options granted under the Share Option Scheme do not generally require the approval of shareholders of our Company in general meeting and the aggregate nominal amount of Shares which our Directors are authorised to allot and issue pursuant to this mandate will not be reduced by the allotment and issue of such Shares.

This mandate will expire at:

- the conclusion of our next annual general meeting;
- the expiration of the period within which our next general meeting is required by the Articles or any applicable laws to be held; and
- the date on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed “Resolutions of our Shareholders” in Appendix V to this prospectus.



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## SHARE CAPITAL

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### GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following completion of the Global Offering, but excluding Shares that may fall to be issued under the Over-allotment Option. This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Repurchase by our Company of our own securities” in Appendix V to this prospectus.

This mandate will expire at:

- the conclusion of our next annual general meeting;
- the expiration of the period within which our next annual meeting is required by the Articles or any applicable laws to be held; and
- the date on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed “Resolutions of our Shareholders” in Appendix V to this prospectus.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware of, as at the Latest Practicable Date and immediately upon Listing (and without taking into account Shares to be issued pursuant to the exercise of the Over-allotment Option and any options to be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange (as the case may be) under provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group:

Name of Shareholder	Capacity/nature of interest	As at the Latest Practicable Date		Upon Listing	
		Number and class of securities <sup>(1)</sup>	Approximate percentage of shareholding	Number and class of securities <sup>(1)</sup>	Approximate percentage of shareholding
Mr. Matthew Yeung	Interest of controlled corporations	926,000 Shares <sup>(2 and 3)</sup> (L)	92.60%	1,389,000,000 Shares <sup>(2 and 3)</sup> (L)	69.45%
Ms. Wong Mei Kuen Joan	Interest of spouse	926,000 Shares <sup>(4)</sup> (L)	92.60%	1,389,000,000 Shares <sup>(4)</sup> (L)	69.45%
Athena Power	Beneficial owner	126,000 Shares (L)	12.60%	189,000,000 Shares (L)	9.45%
Cervera	Beneficial owner	800,000 Shares (L)	80.00%	1,200,000,000 Shares (L)	60.00%

*Notes:*

1. The letter "L" denotes long position in our Shares.
2. These Shares were held by Athena Power, which was wholly owned by Mr. Matthew Yeung.
3. These Shares were held by Cervera, which was owned as to 63% by Mr. Matthew Yeung, 30% by Mr. Jeffrey Yeung and 7% by Madam Fu.
4. Ms. Wong Mei Kuen Joan is the wife of Mr. Matthew Yeung.

Save as disclosed herein, our Directors are not aware of any persons who will, as at the Latest Practicable Date and immediately upon Listing (but without taking into account Shares to be issued pursuant to the exercise of the Over-allotment Option and any options to be granted under the Share Option Scheme), have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange (as the case may be) under provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group other than our Company.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis of our financial condition and results of operations together with our combined financial statements as at and for the years ended 31 December 2011, 2012 and 2013 and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRS. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.*

### OVERVIEW

We were the largest first-level American Ginseng wholesaler in Hong Kong in terms of sales revenue and sales volume in the years ended 31 December 2011, 2012 and 2013 and our market share of the total revenue generated by the first-level American Ginseng wholesalers in Hong Kong was over 50% for the year ended 31 December 2013, according to the Ipsos Report. During our over 20 years in the American Ginseng industry, under the skillful management of Mr. Matthew Yeung, our Chairman, Chief Executive Officer, founder and one of our Controlling Shareholders, our business grew from a small private enterprise into one of the leading players in the American Ginseng wholesale industry in Hong Kong. Hong Kong is considered to be one of the most important American Ginseng shipping and receiving port in the world. According to the Ipsos Report, in 2013, around 90.3% of Canada's American Ginseng exports and 45.9% of the United States' American Ginseng exports were destined to Hong Kong.

We are primarily engaged in the sourcing and wholesaling of unprocessed American Ginseng, which comprises Cultivated Ginseng and Wild Ginseng. We do not cultivate or harvest American Ginseng. We purchase all of our unprocessed American Ginseng from Growers and Bulk Exporters based in Canada and the United States. We are also engaged in the selling of a relatively small amount of processed American Ginseng and Other Products purchased from suppliers based in Hong Kong. We sell our American Ginseng (both processed and unprocessed) in Hong Kong to our customers who are primarily secondary wholesalers and retailers of American Ginseng based in Hong Kong, the PRC, Taiwan and Southeast Asia. We are also engaged in the retail sales of processed American Ginseng and Other Products through our retail outlet and store-in-store concessions in Hong Kong.

We experienced rapid growth in revenue during the Track Record Period. Our revenue increased from approximately HK\$446.4 million in the year ended 31 December 2011 to approximately HK\$763.0 million in the year ended 31 December 2013, representing a CAGR of approximately 30.7%.

Our gross profit increased from approximately HK\$88.2 million in the year ended 31 December 2011 to approximately HK\$179.4 million in the year ended 31 December 2013, representing a CAGR of approximately 42.6%, despite a decrease in our gross profit by approximately HK\$7.8 million, or approximately 8.8%, from approximately HK\$88.2 million for the year ended 31 December 2011 to approximately HK\$80.4 million for the year ended 31 December 2012.

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## FINANCIAL INFORMATION

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Our net profit increased from approximately HK\$44.4 million in the year ended 31 December 2011 to approximately HK\$128.6 million in the year ended 31 December 2013, representing a CAGR of approximately 70.2%, despite a decrease in our net profit by approximately HK\$12.1 million, or approximately 27.3%, from approximately HK\$44.4 million for the year ended 31 December 2011 to approximately HK\$32.3 million for the year ended 31 December 2012.

Excluding the non-operating items, our adjusted net profit increased from approximately HK\$38.2 million in the year ended 31 December 2011 to approximately HK\$128.0 million in the year ended 31 December 2013, representing a CAGR of approximately 83.1%, despite a decrease in our adjusted net profit by approximately HK\$29.6 million, or approximately 77.5%, from approximately HK\$38.2 million for the year ended 31 December 2011 to approximately HK\$8.6 million for the year ended 31 December 2012.

### **BASIS OF PRESENTATION**

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 August 2011. Pursuant to our Reorganisation as detailed in the section headed “History and Reorganisation” in this prospectus, our Company became the holding company of the companies now comprising our Group. Our Group resulting from our Reorganisation is regarded as a continuing entity. Accordingly, the combined statements of financial position, combined statements of profit or loss and other comprehensive income and combined statements of cash flows for the Track Record Period included the results and cash flows of the companies now comprising our Group which have been prepared by applying the principles of merger accounting, which is consistent with the principle as stated in Accounting Guideline 5 “Merger accounting for common control combinations” issued by the HKICPA, as if the group structure upon completion of our Reorganisation has been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment where there is a shorter period.

The combined financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party. The combined statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities first came under the common control combination, where there is a shorter period, regardless of the date of the common control combination. The combined statements of comprehensive income also take into account the profit or loss attributable to the non-controlling interest recorded in the combined financial statements of the controlling party.

The financial information of our Group as set out in the Accountants’ Report in Appendix I to this prospectus has been prepared in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA. These policies have been consistently applied throughout the Track Record Period. In addition, the financial information includes applicable disclosures required by the Listing Rules and by the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (effective prior to 3 March 2014).

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## FINANCIAL INFORMATION

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All companies now comprising our Group have adopted 31 December as their financial year end date. Prior to the financial year ended 31 December 2012, our Group's subsidiaries in Hong Kong adopted 31 March as its financial year end date. These subsidiaries have changed their financial year end date to conform with that of our Group.

### **FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

#### **Availability of quality American Ginseng and seasonality**

We are principally engaged in the wholesaling of American Ginseng, which comprises Cultivated Ginseng and Wild Ginseng. Accordingly, our results of operations have been and are expected to continue to be affected by our ability to obtain stable and adequate supplies of quality Cultivated Ginseng and Wild Ginseng. There is a degree of seasonality in the American Ginseng wholesale industry. We normally purchase most of our American Ginseng at harvest season, which is usually in the last quarter of each calendar year and the first quarter of the following calendar year, while most of our sales are conducted in the first and second quarters of each calendar year. During the Track Record Period, our Group's purchases during the first and fourth quarters of each financial year accounted for approximately 85.7%, 83.8% and 87.3% of our total purchases during the respective financial year. Moreover, our Group's sales during the first half of each financial year accounted for approximately 72.6%, 75.5% and 71.9% of our total sales during the respective financial year. As a result, our operating results and cash flows may vary substantially from period to period and the results of any period of a year are not necessarily indicative of the results that may be achieved for the full year.

For the years ended 31 December 2011, 2012 and 2013, our purchases volume of American Ginseng amounted to approximately 645,422 kg, 1,407,101 kg and 1,133,129 kg, respectively. Although American Ginseng are perishable agricultural products, they can however be stored for an extended period after drying and this has historically provided us with some degree of flexibility in terms of the timing and volume of our purchases. The increase in our purchase volume of American Ginseng in 2012 was primarily attributable to the (i) increase in our purchases of Cultivated Ginseng during both 2011/2012 and 2012/2013 harvest seasons that were recognised in 2012 in response to our anticipation of increasing sales order, particularly for the first quarter of 2013; and (ii) larger proportion of Cultivated Ginseng purchased during 2012/2013 harvest season were delivered in the fourth quarter of 2012.

Although our purchases volume of American Ginseng decreased in 2013, our sales volume was not materially and adversely affected in 2013, mainly because we were able to meet customers' demand by using our inventories of Cultivated Ginseng purchased in past years. As a result, our sales volume of Cultivated Ginseng were relatively stable at approximately 1,060,065 kg, 1,012,055 kg and 1,108,009 kg for the years ended 31 December 2011, 2012 and 2013, respectively.

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## FINANCIAL INFORMATION

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### Price of American Ginseng

As a wholesaler of American Ginseng, our profitability is affected by fluctuations in the price of American Ginseng. Factors affecting prices of American Ginseng include, among other things, the quality, supply and demand, historical price trend and seasonality. For the years ended 31 December 2011, 2012 and 2013, our costs of sales of American Ginseng accounted for approximately 99.6%, 88.2% and 93.9% of our total costs of sales, respectively. The average purchase price per kg of Cultivated Ginseng and Wild Ginseng during the Track Record Period are set out below:

	Year ended 31 December		
	2011	2012	2013
	HK\$	HK\$	HK\$
American Ginseng			
– Cultivated Ginseng	320.2	371.6	588.8
– Wild Ginseng	9,895.7	11,958.8	16,116.0

During our over 20 years in the American Ginseng industry, we have established close relationships with Growers and Bulk Exporters and we have been cooperating with many of them, in particular our five largest suppliers, for over five years. Whilst we have entered into a long-term exclusive agreement with the Canadian Bulk Exporter to arrange for customs formalities and shipping of unprocessed Cultivated Ginseng from Canada, we have not entered into long term supply agreements with Growers for Cultivated Ginseng or Bulk Exporters of Wild Ginseng or other suppliers.

In general, the price trend of our Group's purchases of Wild Ginseng and Cultivated Ginseng products during the Track Record Period was consistent with the trend based on the assessments of certain market research. Any fluctuations in the costs of the American Ginseng we purchase and our inability to pass on any such increases to our customers may materially and adversely affect our costs of sales, gross profit and gross profit margins. For further details, please refer to the paragraph headed "Risk Factors – Risks Relating to our Business – Our business and profitability may be materially and adversely affected by fluctuations in prices of American Ginseng" in this prospectus.

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## FINANCIAL INFORMATION

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### **Demand for our American Ginseng**

The market demand for our American Ginseng is one of the key factors impacting the selling price of our American Ginseng, which in turn impacts our revenue. According to the Ipsos Report, the global demand for American Ginseng increased by approximately 35.3% between 2008 and 2013 in terms of retail volume and approximately 440.7% in terms of retail value. The increase in global demand was primarily attributable to improvements in overall economic conditions, increases in health awareness amongst consumers, popularity of alternative medicine such as traditional Chinese medicine and active promotion by American Ginseng associations. As a result, our revenue increased during the Track Record Period from approximately HK\$446.4 million in 2011 to HK\$763.0 million in 2013. We believe that fluctuations in demand for American Ginseng will continue to affect our revenue in the future.

### **Exchange rate fluctuations**

Our sales are mainly denominated in HK dollars and RMB. Our costs of sales mainly represent purchases of unprocessed Cultivated Ginseng paid for in CAD, purchases of unprocessed Wild Ginseng paid for in U.S. dollars, purchases of Other Products paid for in HK dollars and purchases of processed American Ginseng paid for in HK dollars. As a result, we incur transactional and translational foreign currency gains or losses from our operations. For the years ended 31 December 2011, 2012 and 2013, our net foreign exchange differences amounted to a gain of approximately HK\$4.8 million, a loss of approximately HK\$0.9 million and a gain of approximately HK\$6.8 million, respectively. Our profit margins may be materially and adversely affected to the extent that we are unable to increase our selling price to offset any increases in our costs of sales and operating expenses due to exchange rate fluctuations.

### **Regulatory environment**

American Ginseng is classified as an endangered species under the CITES, which has been implemented by legislations in member countries, including Canada, the United States, Hong Kong and the PRC in respect of, among other things, the growing, harvesting, purchase, sale, import and export of American Ginseng. The relevant regulations related to the importation and re-exportation of American Ginseng in Hong Kong are laid down in the Import and Export Ordinance and the Protection of Endangered Species of Animals and Plants Ordinance, while the wholesale and retail sales of American Ginseng and Other Products are subject to the Chinese Medicine Ordinance, the Food Safety Ordinance and the Public Health and Municipal Services Ordinance.

For further details on the existing laws and regulations relevant to our Group's businesses, please refer to the sections headed "Risk Factors" and "Regulatory Overview" in this prospectus. The relevant laws, regulations and rules are subject to modification and change. Any legislative or regulatory change that imposes further restriction on, among other things, the growing, harvesting, import or export of American Ginseng, could disrupt our supply of American Ginseng or increase our compliance costs, which could materially and adversely affect our business, financial condition, results of operations and prospects.

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## FINANCIAL INFORMATION

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### Reliance on our major customers

Our results of operations are also significantly affected by our ability to maintain our existing customers as our customer base is highly concentrated. For the years ended 31 December 2011, 2012 and 2013, sales to our five largest customers, which were all customers of our wholesale operation, accounted for approximately 76.4%, 63.5% and 66.5% of our revenue, and sales to our largest customer, for the years ended 31 December 2011, 2012 and 2013, accounted for approximately 27.6%, 15.3% and 26.0% of our revenue, respectively.

As we do not enter into any distribution or sales agency agreements with any of our wholesale customers, nor do we enter into any long-term sales contracts with them, therefore, our relationships with these customers are important to us as the amount of sales to these customers will continue to affect our revenue in the future.

### SELECTED FINANCIAL INFORMATION

The following table sets forth our combined statements of profit or loss and other comprehensive income for the periods indicated:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	446,380	492,276	762,970
Costs of sales	<u>(358,224)</u>	<u>(411,880)</u>	<u>(583,546)</u>
<b>Gross profit</b>	88,156	80,396	179,424
Other income	2,902	2,161	1,926
Other gains and losses	2,667	15,564	7,071
Administrative expenses	(25,749)	(19,123)	(23,616)
Listing expenses	(3,442)	(6,340)	(867)
Other expenses	–	(8,150)	–
Changes in fair value of investment properties	10,600	12,030	–
Finance costs	<u>(17,080)</u>	<u>(15,768)</u>	<u>(10,999)</u>
Profit before taxation	58,054	60,770	152,939
Income tax expense	<u>(13,645)</u>	<u>(28,428)</u>	<u>(24,326)</u>
Profit and total comprehensive income for the year attributable to owners of the Company	<u><u>44,409</u></u>	<u><u>32,342</u></u>	<u><u>128,613</u></u>



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## FINANCIAL INFORMATION

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The following table sets forth our combined statements of financial position as at 31 December 2011, 2012 and 2013:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	41,442	15,665	14,317
Investment properties	312,600	87,000	87,000
Deposits paid for acquisition of property, plant and equipment	—	—	3,567
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total non-current assets</b>	<b><u>354,042</u></b>	<b><u>102,665</u></b>	<b><u>104,884</u></b>
<b>CURRENT ASSETS</b>			
Inventories	132,419	324,822	563,718
Trade and other receivables	135,180	79,572	86,942
Derivative financial instruments	182	—	—
Amount due from a director	174,488	173,404	197,187
Pledged bank deposits	40,593	16,162	12,758
Bank balances and cash	17,756	14,245	47,368
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total current assets</b>	<b><u>500,618</u></b>	<b><u>608,205</u></b>	<b><u>907,973</u></b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	102,771	200,048	362,556
Provision on tax penalty	—	8,150	—
Obligations under finance leases	818	1,585	1,331
Derivative financial instruments	6	—	—
Bank borrowings	517,901	342,822	361,717
Taxation payable	22,511	31,141	33,703
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total current liabilities</b>	<b><u>644,007</u></b>	<b><u>583,746</u></b>	<b><u>759,307</u></b>
<b>NET CURRENT (LIABILITIES) ASSETS</b>	<b><u>(143,389)</u></b>	<b><u>24,459</u></b>	<b><u>148,666</u></b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b><u>210,653</u></b>	<b><u>127,124</u></b>	<b><u>253,550</u></b>

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## FINANCIAL INFORMATION

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	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance leases	2,195	4,286	2,770
Deferred tax liabilities	<u>19,416</u>	<u>9,252</u>	<u>8,580</u>
<b>Total non-current liabilities</b>	<b><u>21,611</u></b>	<b><u>13,538</u></b>	<b><u>11,350</u></b>
<b>NET ASSETS</b>	<b><u>189,042</u></b>	<b><u>113,586</u></b>	<b><u>242,200</u></b>
<b>CAPITAL AND RESERVES</b>			
Share capital	1	1	1
Reserves	<u>189,041</u>	<u>113,585</u>	<u>242,199</u>
<b>Total equity</b>	<b><u>189,042</u></b>	<b><u>113,586</u></b>	<b><u>242,200</u></b>

### SIGNIFICANT ACCOUNTING POLICIES

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales discounts and sales related taxes.

Revenue from sale of Cultivated Ginseng, Wild Ginseng and Other Products is recognised when they are delivered to our customers and titles have passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income from our investments properties, which primary include certain residential properties leased to Independent Third Parties, is recognised on a straight line basis over the period of the respective leases.

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## FINANCIAL INFORMATION

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### **Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Our investment properties during the Track Record Period include certain residential properties and financial derivative instruments.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. During the Track Record Period, we had not recognised any write-down in inventories.

### **KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of our accounting policies, our Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. During the Track Record Period, our estimates and associated assumptions have not materially deviated from the actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. During the Track Record Period, we had not revised our estimates and underlying assumptions. Our Directors do not expect that our estimates and underlying assumptions will change in the foreseeable future.

The following are the critical judgements that our Directors have made in the process of applying our accounting policies and that have the most significant effect on the amounts recognised in financial statements.

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## FINANCIAL INFORMATION

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### Fair value of investment properties

Investment properties are carried in the combined statements of financial position as at 31 December 2011, 2012 and 2013 at their fair values of approximately HK\$312.6 million, HK\$87.0 million and HK\$87.0 million, respectively. The fair value was based on valuation of these properties conducted by independent firms of professional valuers using direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property. Favourable or unfavourable changes to these adjustments would result in changes in the fair value of our Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the combined statements of profit or loss and other comprehensive income.

### Impairment of trade receivables

On assessing any impairment of our Group's trade receivables, our management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flows discounted at an effective interest rate. If the financial condition of the customers of our Group were deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. The carrying amounts of trade receivables were approximately HK\$114.6 million, HK\$60.8 million and HK\$62.2 million as at 31 December 2011, 2012 and 2013, respectively.

## DESCRIPTION OF SELECTED LINE ITEMS OF THE COMBINED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

### Revenue

We derive our revenue from the sales of Cultivated Ginseng, Wild Ginseng and Other Products. Revenue represents the invoiced value of goods sold in the normal course of business, net of sales discounts, if any. All of our revenue is derived from Hong Kong and all of our trade receivables are settled in Hong Kong using Hong Kong dollars, although we invoice our customers in either HK dollars or RMB. We have the following three reportable operating segments: (i) Cultivated Ginseng; (ii) Wild Ginseng; and (iii) Other Products. We derived most of our revenue from the sales of Cultivated Ginseng during the Track Record Period. The following table sets forth a breakdown of our revenue by operating segment during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
American Ginseng						
– Cultivated Ginseng	439,234	98.4	403,758	82.0	675,079	88.5
– Wild Ginseng	5,290	1.2	38,617	7.8	50,799	6.7
Total American Ginseng	444,524	99.6	442,375	89.8	725,878	95.2
Other Products	1,856	0.4	49,901	10.2	37,092	4.8
<b>Total</b>	<b>446,380</b>	<b>100.0</b>	<b>492,276</b>	<b>100.0</b>	<b>762,970</b>	<b>100.0</b>

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The following table sets forth a breakdown of the sales volume of our Cultivated Ginseng and Wild Ginseng during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>KG</i>	<i>KG</i>	<i>KG</i>
American Ginseng			
– Cultivated Ginseng	1,060,065	1,012,055	1,108,009
– Wild Ginseng	379	2,782	2,919

The following table sets forth the average selling prices per kg of our Cultivated Ginseng and Wild Ginseng during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
American Ginseng			
– Cultivated Ginseng	414.3	398.9	609.3
– Wild Ginseng	13,957.8	13,881.0	17,402.9

*Note:*

- (1) Average selling prices represent the revenue for the year divided by the total sales volume for the year.

We believe presentation of sales volume and average selling prices per kg of our Other Products are not meaningful because Other Products consist of a wide range of dried foods with different qualities and characteristics and thus has a wide price range.

The following table sets forth a breakdown of our revenue by sales channel during the Track Record Period:

	<b>Year ended 31 December</b>					
	<b>2011</b>		<b>2012</b>		<b>2013</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Wholesale	444,562	99.6	488,401	99.2	759,092	99.5
Retail	1,818	0.4	3,875	0.8	3,878	0.5
<b>Total</b>	<b><u>446,380</u></b>	<b><u>100.0</u></b>	<b><u>492,276</u></b>	<b><u>100.0</u></b>	<b><u>762,970</u></b>	<b><u>100.0</u></b>

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To the best knowledge of our Directors, the table below sets forth a breakdown of our revenue by the geographical locations of where our customers are headquartered during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
PRC	410,756	92.0	375,702	76.3	589,896	77.3
Hong Kong	21,300	4.8	106,101	21.6	164,695	21.6
Southeast Asia	13,083	2.9	9,954	2.0	7,870	1.0
Other	1,241	0.3	520	0.1	509	0.1
<b>Total</b>	<u>446,380</u>	<u>100.0</u>	<u>492,276</u>	<u>100.0</u>	<u>762,970</u>	<u>100.0</u>

The following table sets forth a breakdown of our revenue by the currency invoiced during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
HKD	38,261	8.6	167,709	34.1	173,097	22.7
RMB	408,119	91.4	324,567	65.9	589,873	77.3
<b>Total</b>	<u>446,380</u>	<u>100.0</u>	<u>492,276</u>	<u>100.0</u>	<u>762,970</u>	<u>100.0</u>

### Costs of sales

Our costs of sales primarily consists of purchase cost of Cultivated Ginseng, Wild Ginseng and Other Products that we sold during the period, as well as freight and transportation costs for delivering products to our warehouses. The following table sets forth a breakdown of our costs of sales by operating segment during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
American Ginseng						
– Cultivated Ginseng	352,494	98.4	327,404	79.5	505,310	86.6
– Wild Ginseng	4,137	1.2	35,708	8.7	42,824	7.3
Total American Ginseng	356,631	99.6	363,112	88.2	548,134	93.9
Other Products	1,593	0.4	48,768	11.8	35,412	6.1
<b>Total</b>	<u>358,224</u>	<u>100.0</u>	<u>411,880</u>	<u>100.0</u>	<u>583,546</u>	<u>100.0</u>

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All of our purchases are invoiced in HKD, CAD, USD and RMB. The following table sets forth a breakdown of our purchases by the currency invoiced during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
HKD	9,706	4.6	113,792	18.9	115,845	14.1
CAD	186,944	88.4	457,107	76.0	585,245	71.5
USD	2,962	1.4	29,434	4.9	118,171	14.4
RMB	11,822	5.6	1,075	0.2	–	0
<b>Total</b>	<u>211,434</u>	<u>100.0</u>	<u>601,408</u>	<u>100.0</u>	<u>819,261</u>	<u>100.0</u>

### Gross profit and gross profit margin

Our gross profit represents our Group's revenue less costs of sales for the relevant period. The following table sets forth a breakdown of our gross profit and gross profit margin by operating segment during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	<b>Gross Profit</b>	<b>Margin</b>	<b>Gross Profit</b>	<b>Margin</b>	<b>Gross Profit</b>	<b>Margin</b>
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
American Ginseng						
– Cultivated Ginseng	86,740	19.7	76,354	18.9	169,769	25.1
– Wild Ginseng	1,153	21.8	2,909	7.5	7,975	15.7
Total American Ginseng	87,893		79,263		177,744	
Other Products	263	14.2	1,133	2.3	1,680	4.5
<b>Total</b>	<u>88,156</u>	19.7	<u>80,396</u>	16.3	<u>179,424</u>	23.5

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### Other income, gains and losses

Other income, gains and losses primarily consist of interest income on bank deposits, changes in fair value of derivative financial instruments, gain on disposal of property, plant and equipment, gain on disposal of subsidiaries, exchange gain or loss and rental income. Our investments in derivative financial instruments mainly represent forward currency contracts. For further details, please refer to the paragraph headed “Investment properties and derivative financial instruments” below. Gain on disposal of subsidiaries represents the gain on the sale of Heng Xhin in 2011, and Billion Victor and Metro Victor in 2012 as part of our Reorganisation. Details of the disposal of Heng Xhin, the sale of Billion Victor and Metro Victor are set out in the section headed “History and Reorganisation – Reorganisation” of this prospectus. Exchange gain or loss was mainly derived from the trading transactions with our customers and suppliers which were dominated in RMB, USD and CAD. Rental income represents income from the lease of our investment property to an Independent Third Party. Other income, gains and losses was approximately HK\$5.6 million, HK\$17.7 million and HK\$9.0 million, representing approximately 1.3%, 3.6% and 1.2% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively. The following table sets forth a breakdown of our other income, gains and losses during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
<b>OTHER INCOME</b>			
Interest income on bank deposits	8	149	6
Rental income	1,632	1,848	1,920
Sundry income	1,262	164	–
	<u>2,902</u>	<u>2,161</u>	<u>1,926</u>
<b>OTHER GAINS AND LOSSES</b>			
Changes in fair value of derivative financial instruments	(3,234)	410	–
Gain on disposal of property, plant and equipment	1,093	–	243
Gain on disposal of subsidiaries	2	16,096	–
Exchange gain (loss)	4,806	(942)	6,828
	<u>2,667</u>	<u>15,564</u>	<u>7,071</u>



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### Administrative expenses

Our administrative expenses primarily comprise salaries and welfare, depreciation, property rental and related expenses, utilities and office expenses, legal and professional fee, as well as advertising and marketing expenses. Our administrative expenses represented approximately 5.8%, 3.9% and 3.1% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively. The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Salaries and welfare	6,147	23.9	6,215	32.5	9,700	41.1
Depreciation	3,951	15.3	2,584	13.5	1,999	8.5
Property rental and related expenses	2,622	10.2	2,533	13.3	2,010	8.5
Utilities and office expenses	6,548	25.4	4,358	22.8	5,097	21.6
Advertising and marketing expenses	2,044	8.0	1,699	8.9	3,635	15.4
Auditor's remuneration	1,000	3.9	1,000	5.2	1,000	4.2
Consulting fee	2,966	11.5	–	–	–	–
Others	471	1.8	734	3.8	175	0.7
<b>Total</b>	<u>25,749</u>	<u>100.0</u>	<u>19,123</u>	<u>100.0</u>	<u>23,616</u>	<u>100.0</u>

### Listing expenses

Our listing expenses primarily comprise expenses incurred in preparation for the Global Offering. Our listing expenses represented approximately 0.8%, 1.3% and 0.1% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively.

### Other expenses

Our other expenses represents tax penalty in 2012. For further details, please refer to the section headed "Business – Non-compliance matters under the IRO" in this prospectus.

### Changes in fair value of investment properties

Our changes in fair value of investment properties primarily comprise gains or losses arising from investment properties when they are measured at their fair values. During the Track Record Period, we held one or more investment properties, which are residential properties that we rented out to Independent Third Parties. As at 31 December 2011, 2012 and 2013, we held two, one and one investment property(ies), respectively. We acquired one additional investment property in the year ended 31 December 2011 and disposed of it in the year ended 31 December 2012. We have no current

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plans to dispose of our remaining investment property. The fair values of these investment properties were assessed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer. Our fair value change of investment properties represented approximately 2.4%, 2.4% and Nil of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively.

### **Finance costs**

Our finance costs consist of interests on bank loans and overdrafts and finance leases wholly repayable within five years. Finance costs represented approximately 3.8%, 3.2% and 1.4% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively.

### **Income Tax Expense**

#### ***Hong Kong***

The subsidiaries of our Company incorporated in Hong Kong are subject to a profits tax at the rate of 16.5% for the years ended 31 December 2011, 2012 and 2013. Our income tax expense for the years ended 31 December 2011, 2012 and 2013 was approximately HK\$13.6 million, HK\$28.4 million and HK\$24.3 million, respectively. Our effective tax rates for the same periods were 23.5%, 46.8% and 15.9%, respectively. Our effective tax rates were higher than the prevailing statutory tax rate in 2011 and 2012 primarily because there was (i) an additional profits tax arising from provision of the tax undercharge for the years of assessment from 2003/04 to 2010/11 and relevant penalty, details of which are set out in Note 12 to the Accountants' Report and the section headed "Business – Non-compliance matters under the IRO" in this prospectus; and (ii) the tax effect of expenses not deductible for tax purpose in the amount of approximately HK\$3.5 million and HK\$3.3 million for the year ended 31 December 2011 and 2012, respectively, which mainly related to the listing expenses incurred during the respective year. In 2012, there was also a provision of profits tax arising from the disposal of subsidiaries.

#### ***Cayman Islands***

Pursuant to Section 6 of the Tax Concession Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Council of the Cayman Islands that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to our Company or its operations for a period of 20 years commencing from 6 September 2011.

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### ***BVI***

The subsidiaries of our Company incorporated in the BVI are not subject to income tax as such subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

### **PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS**

#### **Year ended 31 December 2013 Compared to Year ended 31 December 2012**

#### ***Revenue***

Our revenue increased by approximately HK\$270.7 million, or approximately 55.0%, from approximately HK\$492.3 million for the year ended 31 December 2012 to approximately HK\$763.0 million for the year ended 31 December 2013.

#### ***Cultivated Ginseng***

Our revenue from sales of Cultivated Ginseng increased by approximately HK\$271.3 million, or approximately 67.2%, from approximately HK\$403.8 million for the year ended 31 December 2012 to approximately HK\$675.1 million for the year ended 31 December 2013. This was mainly attributable to the increase in the average selling price of our Cultivated Ginseng from approximately HK\$398.9 per kg for the year ended 31 December 2012 to approximately HK\$609.3 per kg for the year ended 31 December 2013, resulting from the constant increase in the demand for Cultivated Ginseng which led to an increase in the market price. The sales volume of our Cultivated Ginseng slightly increased from approximately 1.0 million kg for the year ended 31 December 2012 to 1.1 million kg for the year ended 31 December 2013.

#### ***Wild Ginseng***

Our revenue from sales of Wild Ginseng increased by approximately HK\$12.2 million, or approximately 31.6%, from approximately HK\$38.6 million for the year ended 31 December 2012 to approximately HK\$50.8 million for the year ended 31 December 2013. This was mainly attributable to increase in the average selling price of our Wild Ginseng, resulting from the reduction in stock available in the market due to its scarcity and the increase in the sales volume of Wild Ginseng as we have devoted more effort on the expansion of Wild Ginseng market since 2012.

#### ***Other Products***

Other Products mainly included cordyceps, cubilose, abalone and fish maw and we sold them (i) on an ad hoc basis to customers only upon receipt of purchase orders from our existing American Ginseng customers; and (ii) at our retail outlet. Our revenue from sales of Other Products decreased by approximately HK\$12.8 million, or approximately 25.7%, from approximately HK\$49.9 million for the year ended 31 December 2012 to approximately HK\$37.1 million for the year ended 31 December

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2013. This was mainly because no customers placed significant order for fish maw for the year ended 31 December 2013 and therefore the revenue from the sales of fish maw decreased significantly from approximately HK\$12.1 million for the year ended 31 December 2012 to HK\$1,200 for the year ended 31 December 2013.

### *Costs of sales*

Our costs of sales increased by approximately HK\$171.6 million, or approximately 41.7%, from HK\$411.9 million for the year ended 31 December 2012 to HK\$583.5 million for the year ended 31 December 2013. The increase in costs of sales was mainly attributable to increase in average cost per kg and sales volume of our products.

### *Cultivated Ginseng*

Our costs of sales incurred from the sale of Cultivated Ginseng increased from approximately HK\$327.4 million for the year ended 31 December 2012 to approximately HK\$505.3 million for the year ended 31 December 2013. The increase was primarily due to the increase in average purchase cost per kg and sales volume during 2013.

### *Wild Ginseng*

Our costs of sales incurred from the sale of Wild Ginseng increased from approximately HK\$35.7 million for the year ended 31 December 2012 to approximately HK\$42.8 million for the year ended 31 December 2013. The increase was in line with the increase in our sales volume of Wild Ginseng for the year ended 31 December 2013.

### *Other Products*

Our costs of sales incurred from the sale of Other Products decreased from approximately HK\$48.8 million for the year ended 31 December 2012 to approximately HK\$35.4 million for the year ended 31 December 2013. The decrease was primarily because no customers placed significant order for fish maw for the year ended 31 December 2013.

### *Gross profit and gross profit margin*

Our gross profit increased by approximately HK\$99.0 million, or approximately 1.2 times, from approximately HK\$80.4 million for the year ended 31 December 2012 to approximately HK\$179.4 million for the year ended 31 December 2013. Our gross profit margin increased from approximately 16.3% for the year ended 31 December 2012 to approximately 23.5% for the year ended 31 December 2013.

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### *Cultivated Ginseng*

Our gross profit from the sales of Cultivated Ginseng increased from approximately HK\$76.4 million for the year ended 31 December 2012 to approximately HK\$169.8 million for the year ended 31 December 2013, which was mainly attributable to the increase in the average selling price of our Cultivated Ginseng from approximately HK\$398.9 per kg for the year ended 31 December 2012 to approximately HK\$609.3 per kg for the year ended 31 December 2013.

Our gross profit margin from the sales of Cultivated Ginseng increased from approximately 18.9% for the year ended 31 December 2012 to approximately 25.1% for the year ended 31 December 2013, which was primarily attributable to the constant increase in the demand for Cultivated Ginseng, which led to an increase in the market price of Cultivated Ginseng and while we were able to shift our cost increase to our customers.

### *Wild Ginseng*

Our gross profit from the sales of Wild Ginseng increased from approximately HK\$2.9 million for the year ended 31 December 2012 to approximately HK\$8.0 million for the year ended 31 December 2013, which was mainly attributable to the increase in the average selling price of our Wild Ginseng from approximately HK\$13,881.0 per kg for the year ended 31 December 2012 to approximately HK\$17,402.9 per kg for the year ended 31 December 2013.

Our gross profit margin from the sales of Wild Ginseng increased from approximately 7.5% for the year ended 31 December 2012 to approximately 15.7% for the year ended 31 December 2013, as we sold Wild Ginseng with higher gross profit margin due to the higher grade of Wild Ginseng sold for the year ended 31 December 2013.

### *Other Products*

Our gross profit from the sales of Other Products increased from approximately HK\$1.1 million for the year ended 31 December 2012 to approximately HK\$1.7 million for the year ended 31 December 2013, which was mainly attributable to the increase in sales volume of cubilose and the combination of Other Products sold during the year.

Our gross profit margin from the sales of Other Products increased from approximately 2.3% for the year ended 31 December 2012 to approximately 4.5% for the year ended 31 December 2013. This was mainly due to increase in sales of cordyceps and cubilose which had a higher gross profit margin as compared to the overall gross profit margin of Other Products for the year ended 31 December 2012, and decrease in sales of fish maw which had a lower gross profit margin for the year ended 31 December 2012.

### *Other income and other gains and losses*

Other income decreased from approximately HK\$2.2 million for the year ended 31 December 2012 to approximately HK\$1.9 million for the year ended 31 December 2013 was mainly attributable to the decrease in interest income on bank deposits and sundry income.

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Other gains and losses decreased by approximately HK\$8.5 million, or approximately 54.5%, from approximately HK\$15.6 million for the year ended 31 December 2012 to approximately HK\$7.1 million for the year ended 31 December 2013, because there was no disposal of investment property or subsidiaries in 2013, which was offset by an increase in exchange gain from a loss of approximately HK\$0.9 million to a gain of approximately HK\$6.8 million primarily due to the depreciation of CAD in 2013.

### *Administrative expenses*

Our administrative expenses increased by approximately HK\$4.5 million, or approximately 23.6%, from approximately HK\$19.1 million for the year ended 31 December 2012 to approximately HK\$23.6 million for the year ended 31 December 2013. This was primarily due to the increase in number of staff to build up retail operation.

### *Listing expenses*

Our listing expenses decreased by approximately HK\$5.4 million, or approximately 85.7%, from approximately HK\$6.3 million for the year ended 31 December 2012 to approximately HK\$0.9 million for the year ended 31 December 2013, primarily due to the engagement of professional parties in preparation for the Global Offering in 2012.

### *Changes in fair value of investment properties*

Our fair value change of investment property, which represented residential property located in Hong Kong, decreased by approximately HK\$12.0 million, or approximately 1.0 times, from a gain of approximately HK\$12.0 million for the year ended 31 December 2012 to nil for the year ended 31 December 2013. We did not record any changes in fair value of investment property as the fair value of our Group's investment properties remained at approximately HK\$87.0 million as at 31 December 2012 and 2013, which has been arrived at on the basis of valuation carried out by an independent valuer.

### *Finance costs*

Our finance costs decreased by approximately HK\$4.8 million, or approximately 30.4%, from approximately HK\$15.8 million for the year ended 31 December 2012 to approximately HK\$11.0 million for the year ended 31 December 2013 primarily due to a decrease in the average balance on the bank loans and overdrafts wholly repayable within five years of which the respective interest expense decreased from approximately HK\$15.6 million for the year ended 31 December 2012 to approximately HK\$10.7 million for the year ended 31 December 2013.

### *Other expenses*

We incurred tax penalty of approximately HK\$8.2 million in 2012. For further details, please refer to the section headed "Business – Non-compliance matters under the IRO" in this prospectus.

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### *Profit before taxation*

Profit before taxation increased by approximately HK\$92.1 million, or approximately 1.5 times, from approximately HK\$60.8 million for the year ended 31 December 2012 to approximately HK\$152.9 million for the year ended 31 December 2013, primarily as a result of the factors as discussed above. Profit before taxation, excluding non-operating items, increased from approximately HK\$37.0 million for the year ended 31 December 2012 to approximately HK\$152.3 million for the year ended 31 December 2013, mainly as a result of an increase in sales and gross profit.

### *Income tax expense*

Income tax expense decreased by approximately HK\$4.1 million, or approximately 14.4%, from HK\$28.4 million for the year ended 31 December 2012 to approximately HK\$24.3 million for the year ended 31 December 2013. This was mainly attributable to the fact that there is no underprovision for tax in prior years and provision of tax for disposal of subsidiaries in 2013. This was also offset by the tax effect of an increase in sales and gross profit.

### *Profit for the year*

Profit for the year increased by approximately HK\$96.3 million, or approximately 3.0 times, from approximately HK\$32.3 million for the year ended 31 December 2012 to approximately HK\$128.6 million for the year ended 31 December 2013, primarily as a result of the factors described above. Profit for the year, excluding non-operating items, increased from approximately HK\$8.6 million for the year ended 31 December 2012 to approximately HK\$128.0 million for the year ended 31 December 2013, mainly as a result of an increase in gross profit from the sales of American Ginseng.

## **Year ended 31 December 2012 Compared to Year ended 31 December 2011**

### *Revenue*

Our revenue increased by approximately HK\$45.9 million, or approximately 10.3%, from approximately HK\$446.4 million for the year ended 31 December 2011 to approximately HK\$492.3 million for the year ended 31 December 2012.

### *Cultivated Ginseng*

Our revenue from sales of Cultivated Ginseng decreased by approximately HK\$35.4 million, or approximately 8.1%, from approximately HK\$439.2 million for the year ended 31 December 2011 to approximately HK\$403.8 million for the year ended 31 December 2012. This was mainly attributable to (i) the decrease in the average selling price of our Cultivated Ginseng from approximately HK\$414.3 per kg for the year ended 31 December 2011 to approximately HK\$398.9 per kg for the year ended 31 December 2012 because a decrease in our average purchase price for the Cultivated Ginseng that we procured during the 2011/2012 harvest season; and (ii) the decrease in sales of Cultivated Ginseng as we have devoted more effort on the expansion of Wild Ginseng market since 2012.

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### *Wild Ginseng*

Our revenue from sales of Wild Ginseng increased by approximately HK\$33.3 million, or approximately 6.3 times, from approximately HK\$5.3 million for the year ended 31 December 2011 to approximately HK\$38.6 million for the year ended 31 December 2012. This was mainly attributable to the increase in sales volume of Wild Ginseng from approximately 379 kg in 2011 to approximately 2,782 kg in 2012 as we have devoted more effort on the expansion of Wild Ginseng market since 2012.

### *Other Products*

Other Products mainly included cordyceps, cubilose, abalone and fish maw and we sell them on an ad hoc basis to customers only upon receipt of purchase orders from customers of American Ginseng. Our revenue from sales of Other Products increased by approximately HK\$48.0 million, or approximately 25.3 times, from approximately HK\$1.9 million for the year ended 31 December 2011 to approximately HK\$49.9 million for the year ended 31 December 2012. This was mainly attributable to the increase in the ad hoc purchase volume and average selling prices of abalone and fish maw from our existing American Ginseng customers.

### *Costs of sales*

Our costs of sales increased by approximately HK\$53.7 million, or approximately 15.0%, from HK\$358.2 million for the year ended 31 December 2011 to HK\$411.9 million for the year ended 31 December 2012.

### *Cultivated Ginseng*

Our costs of sales incurred from the sale of Cultivated Ginseng decreased from approximately HK\$352.5 million for the year ended 31 December 2011 to approximately HK\$327.4 million for the year ended 31 December 2012. The decrease was primarily due to the decrease in sales volume of Cultivated Ginseng during 2012.

### *Wild Ginseng*

Our costs of sales incurred from the sale of Wild Ginseng increased from approximately HK\$4.1 million for the year ended 31 December 2011 to approximately HK\$35.7 million for the year ended 31 December 2012. The increase was in line with the increase in our sales volume of Wild Ginseng in 2012.

### *Other Products*

Our costs of sales incurred from the sale of Other Products increased from approximately HK\$1.6 million for the year ended 31 December 2011 to approximately HK\$48.8 million for the year ended 31 December 2012. The increase was primary as a result of (i) the increase in the sales



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volume of abalone from approximately 27 kg for the year ended 31 December 2011 to approximately 462 kg for the year ended 31 December 2012; and (ii) the sales volume of fish maw increased from approximately 11 kg for the year ended 31 December 2011 to approximately 288 kg for the year ended 31 December 2012 for ad hoc orders from our existing American Ginseng customers.

### *Gross profit and gross profit margin*

Our gross profit decreased by approximately HK\$7.8 million, or approximately 8.8%, from approximately HK\$88.2 million for the year ended 31 December 2011 to approximately HK\$80.4 million for the year ended 31 December 2012. Our gross profit margin decreased from approximately 19.7% for the year ended 31 December 2011 to approximately 16.3% for the year ended 31 December 2012.

### *Cultivated Ginseng*

Our gross profit from the sales of Cultivated Ginseng decreased from approximately HK\$86.7 million for the year ended 31 December 2011 to approximately HK\$76.4 million for the year ended 31 December 2012, which was mainly attributable to the decrease in sales of Cultivated Ginseng as we have devoted more effort on the expansion of Wild Ginseng market since 2012. Our gross profit margin from the sales of Cultivated Ginseng remained relatively stable at approximately 19.7% for the year ended 31 December 2011 and approximately 18.9% for the year ended 31 December 2012.

### *Wild Ginseng*

Our gross profit from the sales of Wild Ginseng increased from approximately HK\$1.2 million for the year ended 31 December 2011 to approximately HK\$2.9 million for the year ended 31 December 2012. The increase was mainly because of the increase in the sales volume of Wild Ginseng from approximately 379 kg for the year ended 31 December 2011 to approximately 2,782 kg for the year ended 31 December 2012. Our gross profit margin from the sales of Wild Ginseng decreased from approximately 21.8% for the year ended 31 December 2011 to approximately 7.5% for the year ended 31 December 2012. The significant decrease in gross profit margin was mainly because of an increase in average purchase cost of our Wild Ginseng from approximately HK\$9,895.7 per kg for the year ended 31 December 2011 to approximately HK\$11,958.8 per kg for the year ended 31 December 2012. Therefore, although the sales volume of our Wild Ginseng increased from approximately 379 kg for the year ended 31 December 2011 to approximately 2,782 kg for the year ended 31 December 2012, our gross profit margin from the sales of Wild Ginseng decreased as we managed to source Wild Ginseng with higher quality in 2011.

### *Other Products*

Our gross profit from the sales of Other Products increased significantly from approximately HK\$0.3 million for the year ended 31 December 2011 to approximately HK\$1.1 million for the year ended 31 December 2012. This was mainly attributable to the increase in the sale of fish maw and abalone.

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Our gross profit margin from the sales of Other Products decreased significantly from approximately 14.2% for the year ended 31 December 2011 to approximately 2.3% for the year ended 31 December 2012. This was mainly attributable to change in the product mix of our Other Products sales. There was a significant increase in the sales of abalone and fish maw and the gross profit margin of which were approximately 1.9% and 1.0%, respectively, in 2012.

### *Other income and other gains and losses*

Other income decreased from approximately HK\$2.9 million for the year ended 31 December 2011 to approximately HK\$2.2 million for the year ended 31 December 2012 was mainly attributable to the decrease in our sundry income derived from incidental business function charge upon the utilisation of the property facility by independent third parties.

Other gains and losses increased significantly by approximately HK\$12.9 million, or approximately 4.8 times, from approximately HK\$2.7 million for the year ended 31 December 2011 to approximately HK\$15.6 million for the year ended 31 December 2012, primarily due to a gain recognised from the disposal of subsidiaries amounted to approximately HK\$16.1 million and gain from the change in fair value of derivative financial instruments of approximately HK\$0.4 million when compared to a loss of approximately HK\$3.2 million in 2011. This was partially offset by an exchange gain of approximately HK\$4.8 million for the year ended 31 December 2011 to a loss of approximately HK\$0.9 million for the year ended 31 December 2012, mainly as a result of an increasing trend in the exchange rate for CAD during the purchasing season of year.

### *Administrative expenses*

Our administrative expenses decreased by approximately HK\$6.6 million, or approximately 25.7%, from approximately HK\$25.7 million for the year ended 31 December 2011 to approximately HK\$19.1 million for the year ended 31 December 2012. This was primarily due to decreases in depreciation and professional fees as well as utilities and office expenses.

### *Listing expenses*

Our listing expenses increased by approximately HK\$2.9 million, or approximately 85.3% from approximately HK\$3.4 million for the year ended 31 December 2011 to approximately HK\$6.3 million for the year ended 31 December 2012, primarily due to the engagement of auditors and lawyers in preparation for the Global Offering.

### *Changes in fair value of investment properties*

Our fair value change of investment properties increased by approximately HK\$1.4 million, or approximately 13.2%, from approximately HK\$10.6 million for the year ended 31 December 2011 to approximately HK\$12.0 million for the year ended 31 December 2012 primarily because we disposed one of our investment properties and one of our subsidiaries.

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### *Finance costs*

Our finance costs decreased by approximately HK\$1.3 million, or approximately 7.6%, from approximately HK\$17.1 million for the year ended 31 December 2011 to approximately HK\$15.8 million for the year ended 31 December 2012 primarily due to a decrease in the average balance on the bank loans and overdrafts wholly repayable within five years of which the respective interest expense decreased from approximately HK\$16.9 million for the year ended 31 December 2011 to approximately HK\$15.6 million for the year ended 31 December 2012.

### *Other expenses*

We incurred tax penalty of approximately HK\$8.2 million for the year ended 31 December 2012. For further details, please refer to the section headed “Business – Non-compliance matters under the IRO” in this prospectus.

### *Profit before taxation*

Profit before taxation increased by approximately HK\$2.7 million, or approximately 4.6%, from approximately HK\$58.1 million for the year ended 31 December 2011 to approximately HK\$60.8 million for the year ended 31 December 2012, primarily as a result of the factors described above. Profit before taxation, excluding non-operating items, decreased from approximately HK\$51.8 million for the year ended 31 December 2011 to approximately HK\$37.0 million for the year ended 31 December 2012, mainly as a result of an decrease in our gross profit from the sales of American Ginseng and tax penalty of approximately HK\$8.2 million for the year ended 31 December 2012.

### *Income tax expense*

Income tax expense increased by approximately HK\$14.8 million, or approximately 108.8%, from HK\$13.6 million for the year ended 31 December 2011 to approximately HK\$28.4 million for the year ended 31 December 2012. This was primarily as a result of provision of profits tax on disposal of subsidiaries and an underprovision in respect of prior years for the amount of approximately HK\$5.6 million for the year ended 31 December 2012. For further details, please refer to Note 12 to the Accountant’s Report and the section headed “Business – Non-compliance matters under the IRO” in this prospectus.

### *Profit for the year*

Profit for the year decreased by approximately HK\$12.1 million, or approximately 27.3%, from approximately HK\$44.4 million for the year ended 31 December 2011 to approximately HK\$32.3 million for the year ended 31 December 2012, primarily as a result of the factors described above. Profit for the year, excluding non-operating items, decreased from approximately HK\$38.2 million for the year ended 31 December 2011 to approximately HK\$8.6 million for the year ended 31 December 2012, mainly as a result of a decrease in our gross profit from the sales of American Ginseng and tax penalty and underprovision of prior year income tax expenses for the year ended 31 December 2012.

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### LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for the payment of purchases of American Ginseng from Growers, Bulk Exporters and our other suppliers. Since our establishment and going forward, our liquidity requirements have been financed through a combination of cash generated from our operating activities, bank loans and advances from a director or related companies.

The following table is a condensed summary of our combined statements of cash flows for the periods indicated:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	175,276	4,786	48,081
Net cash (used in) from investing activities	(154,621)	87,156	(21,900)
Net cash (used in) from financing activities	<u>(6,226)</u>	<u>(95,925)</u>	<u>6,865</u>
Net increase (decrease) in cash and cash equivalents	14,429	(3,983)	33,046
Effect of exchange rate changes	423	472	77
Cash and cash equivalents at beginning of the year	<u>2,904</u>	<u>17,756</u>	<u>14,245</u>
Cash and cash equivalents at the end of the year	<u><u>17,756</u></u>	<u><u>14,245</u></u>	<u><u>47,368</u></u>

#### Cash flows from operating activities

We derive our cash from operating activities principally from the receipt of payments for the sale of our products. Our cash used in operating activities is principally for purchases from our Growers, Bulk Exporters and our other suppliers.

For the year ended 31 December 2013, our net cash from operating activities amounted to approximately HK\$48.1 million, primarily reflecting our profit before taxation of approximately HK\$152.9 million, as positively adjusted primarily by (i) approximately HK\$154.6 million in increase in trade and other payables; (ii) approximately HK\$11.0 million in interest expense; and (iii) approximately HK\$2.0 million in depreciation of property, plant and equipment; and offset in part primarily by (i) approximately HK\$238.9 million in increase in inventories; (ii) approximately HK\$9.8 million in increase in trade and other receivables; and (iii) approximately HK\$22.4 million in Hong Kong profit tax paid. The increase in inventories was mainly because we increased the amount of Cultivated Ginseng and Wild Ginseng purchased during the year. The increase in trade and other receivables was mainly due to the increase in the sales of American Ginseng during the last quarter of 2013 as compared to 2012, partly offset by a decrease in our sales to customers of long credit term.

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The increase in our net cash from operating activities from approximately HK\$4.8 million for the year ended 31 December 2012 to approximately HK\$48.1 million for the year ended 31 December 2013 was mainly attributable to the increase in our gross profit in 2013 when compared to 2012.

For the year ended 31 December 2012, our net cash from operating activities amounted to approximately HK\$4.8 million, primarily reflecting our profit before taxation of approximately HK\$60.8 million, as positively adjusted primarily by (i) approximately HK\$98.6 million in increase in trade and other payables; (ii) approximately HK\$53.6 million in decrease in trade and other receivables; (iii) approximately HK\$15.8 million in interest expense; (iv) approximately HK\$2.6 million in depreciation of property, plant and equipment; and offset in part primarily by (i) approximately HK\$192.4 million in increase in inventories; (ii) approximately HK\$16.1 million in gain on disposal of subsidiaries; (iii) approximately HK\$12.0 million in changes in fair value of investment properties; and (iv) approximately HK\$15.6 million in Hong Kong profit tax paid. The increase in inventories was mainly because we increased the amount of Cultivated Ginseng purchased in the last quarter of 2012 in order to meet up the sales order for the first quarter of 2013. The decrease in trade and other receivables was mainly because shorter credit periods were granted to our Wild Ginseng customers in general when compared with our Cultivated Ginseng customers and there was an increase in our revenue generated from the sale of Wild Ginseng.

The decrease in our net cash from operating activities from approximately HK\$175.3 million for the year ended 31 December 2011 to approximately HK\$4.8 million for the year ended 31 December 2012 was mainly attributable to the combined effect of (i) a decrease in our gross profit from approximately HK\$88.2 million for the year ended 31 December 2011 to approximately HK\$80.4 million for the year ended 31 December 2012; and (ii) an increase in our purchases from approximately HK\$206.6 million for the year ended 31 December 2011 to approximately HK\$522.0 million for the year ended 31 December 2012, which was mainly attributable the increase in our purchases during the fourth quarter of 2012 in order to meet our sales orders for first quarter of 2013.

For the year ended 31 December 2011, our net cash from operating activities amounted to approximately HK\$175.3 million, primarily reflecting our profit before taxation of approximately HK\$58.1 million, as positively adjusted by (i) approximately HK\$144.0 million in decrease in inventories; (ii) approximately HK\$17.1 million in interest expense; and (iii) approximately HK\$4.0 million in depreciation of property, plant and equipment; and (iv) approximately HK\$0.6 million in increase in trade and other payables; and offset in part primarily by (i) approximately HK\$10.6 million in changes in fair value of investment properties; (ii) approximately HK\$23.0 million in increase in trade and other receivables; and (iii) approximately HK\$11.4 million in Hong Kong profit tax paid. The decrease in inventories was mainly because we shifted some of our purchases of Cultivated Ginseng to fourth quarter of 2012 in response to changes in market prices. The increase in trade and other payables was mainly because we had not received any customers' deposits as at 31 December 2011. The increase in trade and other receivables was mainly because of an increase in sales made during the last quarter of the year ended 31 December 2011 as compared to that of the previous year.

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### **Cash flows from investing activities**

We derive our cash generated from investing activities principally from advance from a director and related companies, proceeds received on disposal of a subsidiary and proceeds from disposal of an investment property. Our cash used in investing activities is principally from repayment to a director, repayment to related companies and purchase of property, plant and equipment.

For the year ended 31 December 2013, our net cash used in investing activities was approximately HK\$21.9 million. This was primarily due to advance to a director of approximately HK\$111.4 million, which was partially offset by repayment from a director of approximately HK\$87.6 million.

For the year ended 31 December 2012, our net cash from investing activities was approximately HK\$87.2 million. This was primarily due to repayment from a director of approximately HK\$137.1 million, repayment from related companies of approximately HK\$157.2 million and proceeds received on disposal of a subsidiary and proceeds from disposal of an investment property of approximately HK\$49.9 million in total. This was partially offset by advance to a director of approximately HK\$211.9 million and an advance to related companies of approximately HK\$72.6 million.

For the year ended 31 December 2011, our net cash used in investing activities was approximately HK\$154.6 million. This was primarily due to advance to a director of approximately HK\$308.3 million and placement of pledged bank deposits of approximately HK\$38.3 million. This was partially offset by repayment from a director of approximately HK\$149.1 million.

### **Cash flows from financing activities**

We derive our cash from financing activities principally from new bank loans raised. Our cash used in financing activities is principally for repayment of bank loans and interest payments.

For the year ended 31 December 2013, our net cash from financing activities was approximately HK\$6.9 million, primarily reflecting cash inflow of approximately HK\$726.1 million from new bank loans which was partially offset by approximately HK\$712.9 million for repayment of bank loans.

For the year ended 31 December 2012, our net cash used in financing activities was approximately HK\$95.9 million, primarily reflecting cash outflow of approximately HK\$836.3 million for repayment of bank loans. This was partially offset by new bank loans of approximately HK\$771.6 million.

For the year ended 31 December 2011, our net cash used in financing activities was approximately HK\$6.2 million, primarily reflecting cash outflow of approximately HK\$514.2 million for repayment of bank loans. This was partially offset by new bank loans raised of approximately HK\$508.9 million.

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### NET CURRENT (LIABILITIES) ASSETS

Details of our current assets and liabilities as at the dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 April
	HK\$'000	HK\$'000	HK\$'000	2014 HK\$'000
				(unaudited)
<b>CURRENT ASSETS</b>				
Inventories	132,419	324,822	563,718	175,986
Trade and other receivables	135,180	79,572	86,942	499,764
Derivative financial instruments	182	–	–	–
Amount due from a director	174,488	173,404	197,187	209,889
Pledged bank deposits	40,593	16,162	12,758	12,759
Bank balances and cash	17,756	14,245	47,368	11,160
	<u>500,618</u>	<u>608,205</u>	<u>907,973</u>	<u>909,558</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	102,771	200,048	362,556	158,955
Provision on tax penalty	–	8,150	–	–
Obligations under finance leases	818	1,585	1,331	1,152
Derivative financial instruments	6	–	–	–
Bank borrowings	517,901	342,822	361,717	362,519
Taxation payable	22,511	31,141	33,703	71,569
	<u>644,007</u>	<u>583,746</u>	<u>759,307</u>	<u>594,195</u>
<b>NET CURRENT (LIABILITIES) ASSETS</b>	<u>(143,389)</u>	<u>24,459</u>	<u>148,666</u>	<u>315,363</u>

We recorded net current liabilities of approximately HK\$143.4 million as at 31 December 2011. The net current liabilities primarily reflected a relative high level of bank borrowings for the mortgage of the investment properties and the purchase of American Ginseng. For details, please refer to the paragraph headed “Indebtedness” below.

Our net working capital improved as at 31 December 2012. Our net working capital position improved from a net current liability of approximately HK\$143.4 million as at 31 December 2011 to a net current asset position of approximately HK\$24.5 million as at 31 December 2012. This improvement was primarily due to (i) a decrease in bank borrowings from approximately HK\$517.9 million as at 31 December 2011 to approximately HK\$342.8 million as at 31 December 2012; and (ii) an increase in inventories from approximately HK\$132.4 million as at 31 December 2011 to

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approximately HK\$324.8 million as at 31 December 2012, partially offset by an increase in trade and other payables from approximately HK\$102.8 million to approximately HK\$200.0 million as at 31 December 2012.

Our net working capital further improved as at 31 December 2013 and recorded net current assets of approximately HK\$148.7 million. This improvement was primarily due to increase in inventories from approximately HK\$324.8 million as at 31 December 2012 to approximately HK\$563.7 million as at 31 December 2013 and an increase in bank balances and cash from approximately HK\$14.2 million as at 31 December 2012 to approximately HK\$47.4 million as at 31 December 2013, partially offset by an increase in trade and other payables from approximately HK\$200.0 million as at 31 December 2012 to HK\$362.6 million as at 31 December 2013.

According to our unaudited management accounts, as at 30 April 2014, we had net current assets of approximately HK\$315.4 million, which primarily consisted of inventories, trade and other receivables and amount due from a director. Our current liabilities primarily consisted of bank borrowings and trade and other payables.

### INVENTORY ANALYSIS

Our inventories consist of Cultivated Ginseng, Wild Ginseng and Other Products that are stored in our warehouses or are in transit. As at 31 December 2011, 2012 and 2013, our inventory levels were approximately HK\$132.4 million, HK\$324.8 million and HK\$563.7 million, respectively. The value of our inventories accounted for approximately 26.5%, 53.4% and 62.1% of our total current assets as at 31 December 2011, 2012 and 2013, respectively.

The following table is a summary of our balance of inventories as at 31 December 2011, 2012 and 2013, respectively:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
American Ginseng			
– Cultivated Ginseng	112,097	309,722	469,905
– Wild Ginseng	12,171	13,017	90,824
	<u>124,268</u>	<u>322,739</u>	<u>560,729</u>
Total American Ginseng			
Other Products	8,151	2,083	2,989
	<u>132,419</u>	<u>324,822</u>	<u>563,718</u>
<b>Total</b>	<b><u>132,419</u></b>	<b><u>324,822</u></b>	<b><u>563,718</u></b>



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Our inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first out method.

Our inventories increased by approximately HK\$192.4 million, or approximately 1.5 times, from approximately HK\$132.4 million as at 31 December 2011 to approximately HK\$324.8 million as at 31 December 2012 mainly due to the increase in the amount of Cultivated Ginseng we purchased in the last quarter of 2012 in order to meet up the sales order for the first quarter of 2013 as compared to that of 2011.

Our inventories increased by approximately HK\$238.9 million, or approximately 73.6%, from approximately HK\$324.8 million as at 31 December 2012 to approximately HK\$563.7 million as at 31 December 2013 because we increased our purchase of Cultivated Ginseng in anticipation of the increasing sales orders in 2014 and we increased our purchase of Wild Ginseng as we have devoted more effort on the expansion of Wild Ginseng market since 2012.

As we make purchase plans for unprocessed American Ginseng annually and our purchases of processed American Ginseng and Other Products are based on orders received from our customers, we do not actively review the adequacy of our inventories. Our policy on obsolete or damaged inventories is to write off such inventories when they are damaged or deemed no longer saleable. In addition, specific provisions are made on the diminution in market value of the inventories should our management decide that the current level of provision is inadequate.

We did not make any provision for nor written off any inventories for damage or obsolescence during the Track Record Period, as we did not experience any significant obsolete or damaged or slow-moving inventories throughout these years.

The following table sets out our average inventory turnover days for the Track Record Period:

	Year ended 31 December		
	2011	2012	2013
Average inventory turnover days <sup>(1)</sup>	208	203	278

*Note:*

- (1) Average inventory turnover days equal to the average of the beginning and ending inventory balances of the year divided by costs of sales for the year and multiplied by 365 days.

Our average inventory turnover days is generally high because American Ginseng can be stored for an extended period after drying and we procure a majority of our American Ginseng during harvest season (i.e. during the fourth quarter of each calendar year and the first quarter of the following calendar year), which will be sold in the course of business until the next harvest season. We were able to procure a large quantity of American Ginseng due to our close and long standing relationships

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with Growers and Bulk Exporters. Our average inventory turnover days remained relatively stable for the years ended 31 December 2011 and 2012 and increased for the year ended 31 December 2013, primarily as a result of the continuing increase in our purchase of American Ginseng, which increased from approximately HK\$211.4 million for the year ended 31 December 2011 to approximately HK\$601.4 million for the year ended 31 December 2012 and further increased to approximately HK\$819.3 million for the year ended 31 December 2013 due to the expected increase in the demand for American Ginseng in the near future.

As at 30 April 2014, approximately HK\$424.0 million, or approximately 75.1%, of our inventories balance as at 31 December 2013 had been subsequently sold.

### TRADE AND OTHER RECEIVABLES ANALYSIS

Our trade and other receivables primarily represent trade receivables for the sales of Cultivated Ginseng, Wild Ginseng and Other Products as well as prepayments and deposits mainly for deposits paid to our Growers and a Bulk Exporter for purchases of Cultivated Ginseng. The following table sets forth a breakdown of our trade and other receivables as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	114,572	60,838	62,184
Other receivables			
Deposit paid for purchase of ginseng	13,579	12,784	21,626
Advance to a bulk exporter <sup>(1)</sup>	5,032	–	–
Consideration receivable in respect of disposal of a subsidiary <sup>(2)</sup>	–	3,000	–
Prepayments and others <sup>(3)</sup>	1,997	2,950	3,132
	20,608	18,734	24,758
Total trade and other receivables	135,180	79,572	86,942

*Notes:*

- (1) Amount represents advances to a bulk exporter for its own business purpose, which has been fully settled during the year ended 31 December 2012.
- (2) Consideration receivable in respect of disposal of a subsidiary represents the consideration in respect of the disposal of Dongguan HF to an individual Independent Third Party in 2012.
- (3) Others mainly consist of freight charges receivables and petty cash.

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We generally grant credit periods ranging from 30 days to 90 days to our wholesale customers. For wholesale customers which we consider creditable and will make large purchases, we may grant credit periods of up to 180 days. For new customers and customers who do not purchase frequently from us, we require deposit prior to delivery of products. We closely monitor the credit quality and follow-up action is taken if overdue debts are noted. On the other hand, sales of our retail outlet are paid for at the time of purchase by cash or credit cards.

### Trade receivables

An analysis of our trade receivables, based on the invoice date as at the dates indicated, is as follows:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	28,297	2,919	47,533
31 to 90 days	19,723	8,952	14,310
Over 90 days	66,552	48,967	341
	<u>114,572</u>	<u>60,838</u>	<u>62,184</u>
<b>Total</b>	<b><u>114,572</u></b>	<b><u>60,838</u></b>	<b><u>62,184</u></b>

The following table sets out our average trade receivables turnover days for the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Average trade receivables turnover days <sup>(1)</sup>	84	65	29

*Note:*

- (1) Average trade receivables turnover days equal to the average of the beginning and ending trade receivables balances of the year divided by revenue for the year and multiplied by 365 days.

Our trade receivables decreased from approximately HK\$114.6 million as at 31 December 2011 to approximately HK\$60.8 million as at 31 December 2012, primarily due to shorter credit periods were granted to our Wild Ginseng customers in general when compared with our Cultivated Ginseng customers and an increase in our revenue generated from the sale of Wild Ginseng.

Our trade receivables increased from approximately HK\$60.8 million as at 31 December 2012 to approximately HK\$62.2 million as at 31 December 2013, primarily due to the increase in the sales of American Ginseng during the last quarter of 2013 as compared to 2012 and decrease in our sales to customers of long credit term.

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Our average trade receivables turnover days decreased for the year ended 31 December 2012 and further decreased for the year ended 31 December 2013, primarily because we increased our effort in credit control during the year and reduced our sales to customers of long credit term.

Our trade receivables are initially measured at fair value and subsequently carried at amortised costs using the effective interest method, less any identified impairment losses. The table below is an ageing analysis of the trade receivables that are past due but not impaired as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Over 90 days	20,071	46,984	–

We have not provided for impairment loss for the above trade receivables balances which were past due as at the end of each reporting date as these receivables were due from certain major customers with no recent history of default and have strong financial background and good creditability. We closely monitor the credit quality of trade receivables and consider those trade receivables that were neither past due nor impaired to be of good credit quality with satisfactory settlement history.

As at 30 April 2014, approximately HK\$33.0 million, or approximately 53.1%, of our trade receivables outstanding as at 31 December 2013 had been settled.

### Other receivables

Prepayments and deposits as at 31 December 2011, 2012 and 2013 were approximately HK\$20.6 million, HK\$18.7 million and HK\$24.8 million, respectively. Prepayments and deposits primarily consisted of deposits paid to our Growers and a Bulk Exporter for purchases of Cultivated Ginseng as at 31 December 2011 and 2012. As at 31 December 2013, prepayment to suppliers further increased to approximately HK\$21.6 million for our purchases orders to be completed in the first quarter of 2014. Furthermore, as at 31 December 2011, we have made advance to a Bulk Exporter for its own business purpose. The amount is unsecured, interest free and repayable on demand. Our Directors confirm that our Company has not made any other advance to other suppliers during the Track Record Period.

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### TRADE AND OTHER PAYABLES

Our trade payables primarily relate to payables for the purchase of Cultivated Ginseng, Wild Ginseng and Other Products. Our other payables mainly represent deposits received from our customers and accrued expenses. Our trade and other payables were approximately HK\$102.8 million, HK\$200.0 million and HK\$362.6 million as at 31 December 2011, 2012 and 2013, respectively. The following table sets forth a breakdown of our trade and other payables as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	93,306	186,089	296,108
Other payables			
Customers' deposits received	–	3,475	58,509
Accrued expenses	9,159	5,430	6,525
Amount due to a bulk exporter <sup>(1)</sup>	–	4,734	1,094
Others	306	320	320
	<u>102,771</u>	<u>200,048</u>	<u>362,556</u>
<b>Total trade and other payables</b>	<b>102,771</b>	<b>200,048</b>	<b>362,556</b>

*Note:*

- (1) Amount represents purchase deposits paid by a Bulk Exporter for purchasing Cultivated Ginseng in Canada on behalf of our Group to other suppliers as at 31 December 2012 and 31 December 2013. The amount is unsecured interest-free and repayable on demand.

### Trade payables

The following table sets forth the ageing analysis of our trade payables at the end of the reporting periods:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	45,834	77,860	290,319
31 to 90 days	32,903	106,642	5,786
91 to 180 days	4,152	472	–
Over 180 days	10,417	1,115	3
	<u>93,306</u>	<u>186,089</u>	<u>296,108</u>
<b>Total</b>	<b>93,306</b>	<b>186,089</b>	<b>296,108</b>

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We normally receive credit terms of 90 days to 150 days from our major suppliers. The following table sets forth our average trade payables turnover days for the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Average trade payables turnover days <sup>(1)</sup>	100	124	151

*Note:*

- (1) Average trade payables turnover days equal to the average of the beginning and ending trade payables balance of the year divided by costs of sales for the year and multiplied by 365 days.

We mainly purchase Cultivated Ginseng and Wild Ginseng from our suppliers during the fourth quarter of the calendar year and the first quarter of the following calendar year. Our average trade payables turnover days fluctuate during the Track Record Period and was primarily related to when we conduct our purchases of Cultivated Ginseng. Such seasonal factor may result in higher or lower trade payable turnover days for the relevant calendar years depending on whether our purchases for a given harvest season is more concentrated in the fourth quarter of a calendar year or the first quarter of the following calendar year. The increase in our trade payables from approximately HK\$93.3 million as at 31 December 2011 to approximately HK\$186.1 million as at 31 December 2012 was primarily due to an increase in purchases made during the last quarter of the year ended 31 December 2012, which amounted to approximately HK\$336.2 million, as compared to approximately HK\$102.2 million to that of the previous year.

The increase in our trade payables from approximately HK\$186.1 million as at 31 December 2012 to approximately HK\$296.1 million as at 31 December 2013 was primarily due to an increase in purchases made during the last quarter of the year ended 31 December 2013, which amounted to approximately HK\$615.1 million, as compared to approximately HK\$336.2 million to that of the previous year.

Our average trade payables turnover days is within the range of credit term granted by major suppliers and can be up to approximately 150 days because American Ginseng can be stored for an extended period of time so we can use our existing inventory to meet up part of our ad hoc sales orders between the purchase seasons and we were able to procure a large quantity of the American Ginseng due to our close and long standing relationships with Growers and Bulk Exporters. Our average trade payables turnover days increased from 100 as at 31 December 2011 to 124 as at 31 December 2012 and further increased to 151 as at 31 December 2013, due to increase in our purchases in the fourth quarter of 2012 and 2013 in respond to the expected increase in the demand for American Ginseng.

Our Directors confirm that there had been no default in repayment of trade and other payables during the Track Record Period.

As at 30 April 2014, approximately HK\$170.0 million, or approximately 57.1%, of our trade payables outstanding as at 31 December 2013 had been settled.

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## FINANCIAL INFORMATION

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### Other payables

Customers' deposits received as at 31 December 2011, 2012 and 2013 were nil, approximately HK\$3.5 million and HK\$58.5 million, respectively. Customers' deposits received primarily consisted of payments received from our customers before they make arrangements to take delivery of the products from our warehouses. The sharp increase in 2013 is mainly due to increase in orders, especially Wild Ginseng, from the customers during the end of 2013.

Accrued expenses as at 31 December 2011, 2012 and 2013 were approximately HK\$9.2 million, HK\$5.4 million and HK\$6.5 million, respectively. Accrued expenses primarily consisted of accrued freight charges, accrued decoration expenses, accrued bank interest and accrued professional fees. The decrease in accrued expenses as at 31 December 2012 was primarily due to decreases in accrued listing expenses. The increase in accrued expenses as at 31 December 2013 is mainly due to the increase in accrued salaries and freight charges.

### INVESTMENT PROPERTIES AND DERIVATIVE FINANCIAL INSTRUMENTS

We are primarily a business that is owned by Mr. Matthew Yeung and his family prior to Listing, and Mr. Matthew Yeung used our Group as a platform to conduct part of his personal investments during the Track Record Period. During the Track Record Period, we owned certain residential properties located in Hong Kong which were classified as investment properties in our financial statements. In addition, in the years ended 31 December 2011 and 2012, our Group has entered into certain derivative transactions, including principally foreign currency investment transactions, based on the instructions of Mr. Matthew Yeung. For details of the nominal amounts and the duration of the derivative financial instruments, net settlement terms and conditions, please refer to Note 20 to the Accountant's Report in Appendix I to this prospectus.

As at 31 December 2011, 2012 and 2013, we had two, one and one investment properties(y), respectively. The changes in fair value of investment properties for the years ended 31 December 2011, 2012 and 2013 amounted to approximately HK\$10.6 million, HK\$12.0 million and nil, respectively.

As at 31 December 2011, 2012 and 2013, we had two, nil and nil forward currency contract(s) outstanding, respectively. The changes in fair value of derivative financial instruments, which was recognised as other income, gains and losses in our financial statements, amounted to a loss of approximately HK\$3.2 million, a gain of approximately HK\$0.4 million and nil, respectively.

In order to enhance our internal control and risk management procedures and to identify and manage the risks which we may be exposed to in handling foreign exchange and other investment transactions in the future, we have adopted enhanced internal control policies on foreign exchange and other investment transactions since February 2013. For further details of our internal control policies, please refer to the section headed "Business – Internal controls".

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### AMOUNTS DUE FROM A DIRECTOR

As at 31 December 2011, 2012 and 2013, we recorded an amount due from a director, Mr. Matthew Yeung, of approximately HK\$174.5 million, HK\$173.4 million and HK\$197.2 million, respectively. The amount is unsecured, interest-free and is without fixed repayment terms.

Other than regular advances to and repayment from a director, amount due from a director also included the following balances during the Track Record Period:

- (a) During the year ended 31 December 2011, Mr. Matthew Yeung directly utilised sale proceeds from four different customers, in a total amount of approximately HK\$19,012,000 after our Group's customers settled their trade payables with our Group (the "Relevant Settlement") in order to satisfy Mr. Matthew Yeung's then personal finance needs as per his then requests. Three of the relevant customers were PRC-based and settled the relevant amount through Third Party Payers and the remaining one was from overseas and settled the relevant amount through Mr. Matthew Yeung. The Relevant Settlement was mainly in relation to the four sales transactions to the above mentioned four customers. Two of the relevant PRC-based customers, which accounted for approximately 88% of the Relevant Settlement, remained as our Group's customers and have made subsequent purchase from our Group during the Track Record Period. To the best knowledge and information of our Directors, there were no unusual circumstances in relation to the Relevant Settlement and such arrangement involving a founding shareholder or a director of a privately owned company, particularly a family and traditional business, is not unusual practice.

Other than paying through Mr. Matthew Yeung or any Third Party Payers, the relevant PRC-based customers had also paid our Group directly for their purchases during the Track Record Period. For information on the reasons and circumstances relating to such third party payments, please refer to the section headed "Business – Certain settlement arrangements through Third Party Payers" in this Prospectus.

Such sales proceeds were not transferred to our Group's bank account and represents as a form of withdrawal from our Company for Mr. Matthew Yeung's personal use. Mr. Matthew Yeung confirms that, other than dealing with the relevant customers in his capacity as a founding Shareholder and a Director, he has no other business dealings with the relevant customers. This represents a non-cash transaction of our Group.

- (b) During the years ended 31 December 2011, 2012 and 2013, Mr. Matthew Yeung paid expenses on behalf of our Group, amounting to approximately HK\$4,277,000, HK\$2,517,000 and nil respectively.
- (c) During the year ended 31 December 2011, Mr. Matthew Yeung repaid the obligation under a finance lease on behalf of our Group, amounting to approximately HK\$1,675,000.
- (d) During the years ended 31 December 2011 and 2012, Mr. Matthew Yeung has purchased tax reserve certificates on behalf of one of our subsidiaries of approximately HK\$525,000 and HK\$2,100,000 respectively.
- (e) On 28 February 2012, our Group disposed of its entire equity interest in Billion Victor for a consideration of approximately HK\$17,000,000 to Mr. Matthew Yeung.



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The amounts due from a director mainly represented loan to Mr. Matthew Yeung during the Track Record Period. The current account with Mr. Matthew Yeung is unsecured, interest-free and does not have any fixed repayment terms. Our Directors confirmed that the amount due from a director had been fully settled as at the Latest Practicable Date.

### CAPITAL EXPENDITURES

Our capital expenditures have principally consisted of expenditures on property, plant and equipment and investment properties. For the years ended 31 December 2011, 2012 and 2013, we incurred capital expenditures in the amounts of approximately HK\$8.3 million, HK\$6.4 million and HK\$1.8 million, respectively. The following table sets out our historical capital expenditures during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Property, plant and equipment</b>			
Leasehold land and buildings	4,550	–	–
Leasehold improvements	–	–	505
Motor vehicles	2,487	4,083	741
Machinery, fixture and equipment	1,226	427	571
	<u>8,263</u>	<u>4,510</u>	<u>1,817</u>
<b>Investment properties</b>	<u>–</u>	<u>1,920</u>	<u>–</u>
<b>Total</b>	<u><u>8,263</u></u>	<u><u>6,430</u></u>	<u><u>1,817</u></u>

Our capital expenditure incurred during the Track Record Period primarily related to the purchases of investment properties, which were residential properties located in Hong Kong that we rented out for receiving rental income. We also purchased motor vehicles, certain workshops as warehouses and car parking spaces during the Track Record Period as our leasehold land and buildings.

We anticipate that our projected capital expenditures will be financed by cash generated from our operations, proceeds from the Global Offering and bank borrowings. The following table sets forth our projected capital expenditures for the year ending 31 December 2014:

	<b>Year ending 31 December 2014 <i>HK\$'000</i></b>
Property, plant and equipment	<u><u>16,211</u></u>

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### COMMITMENTS

#### Our Group as lessee

As at 31 December 2013, our operating lease commitments amounted to approximately HK\$1.7 million, which primarily represented commitments for our leased properties and office equipment. The following table sets forth our total future minimum lease payments under non-cancellable operating leases as at 31 December 2013:

	<b>As at</b> <b>31 December 2013</b> <i>HK\$'000</i>
<b>Buildings</b>	
Within one year	983
In the second to fifth years inclusive	<u>657</u>
	<u>1,640</u>
<b>Office equipment</b>	
Within one year	11
In the second to fifth years inclusive	<u>34</u>
	<u>45</u>
<b>Total</b>	<b><u><u>1,685</u></u></b>

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### OTHER KEY FINANCIAL RATIOS

	As at/for the year ended 31 December		
	2011	2012	2013
Net profit margin before interest and tax <sup>(1)</sup>	16.8%	15.5%	21.5%
– excluding non-operating items <sup>(10)</sup>	11.6%	7.5%	20.0%
Net profit margin <sup>(2)</sup>	9.9%	6.6%	16.9%
– excluding non-operating items <sup>(10)</sup>	8.5%	1.8%	16.8%
Return on assets <sup>(3)</sup>	5.2%	4.5%	12.7%
Return on equity <sup>(4)</sup>	23.5%	28.5%	53.1%
– excluding non-operating items <sup>(10)</sup>	20.2%	7.6%	52.8%
Current ratio <sup>(5)</sup>	0.8	1.0	1.2
Quick ratio <sup>(6)</sup>	0.6	0.5	0.5
Debt to equity ratio <sup>(7)</sup>	264.6%	289.3%	129.8%
Interest coverage ratio <sup>(8)</sup>	4	5	15
Gearing ratio <sup>(9)</sup>	274.0%	301.8%	149.3%

*Notes:*

- (1) Net profit margin before interest and tax equals to our profit before interest and tax divided by revenue for the year.
- (2) Net profit margin equals to profit for the year divided by revenue for the year.
- (3) Return on assets equals to profit for the year divided by total assets as at the end of the year.
- (4) Return on equity equals to profit for the year divided by total equity as at the end of the year.
- (5) Current ratio equals to current assets divided by current liabilities as at the end of the year.
- (6) Quick ratio equals to current assets less inventories divided by current liabilities as at the end of the year.
- (7) Debt to equity ratio equals to net debt divided by total equity as at the end of the year. Net debt includes all bank borrowings less bank balances and cash.
- (8) Interest coverage ratio equals to profit before interest and tax divided by interest expenses for the year.
- (9) Gearing ratio equals to total bank borrowings divided by total equity as at the end of the year.
- (10) Non-operating items include net rental income from investment properties, sundry income, changes in fair value of investment properties, changes in fair value of derivative financial instruments, gain on disposal of subsidiaries, listing expenses.

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### **Net profit margin before interest and tax**

For the years ended 31 December 2011, 2012 and 2013, our net profit margin before interest and tax amounted to approximately 16.8%, 15.5% and 21.5%, respectively. Excluding non-operating items, our net profit margin before interest and tax amounted to approximately 11.6%, 7.5% and 20.0% for the years ended 31 December 2011, 2012 and 2013, respectively.

The decrease in net profit margin before interest and tax the year ended 31 December 2012 was primarily attributable to the decrease in gross profit and gross profit margin and payment of approximately HK\$8.2 million tax penalty for the year ended 31 December 2012. The increase in net profit margin before interest and tax for the year ended 31 December 2013 was primarily due to the increase in our gross profit and gross profit margin and there was no further tax penalty being charged for the year ended 31 December 2013.

### **Net profit margin**

For the years ended 31 December 2011, 2012 and 2013, our net profit margin amounted to approximately 9.9%, 6.6% and 16.9%, respectively. Excluding non-operating items, our net profit margin amounted to approximately 8.5%, 1.8% and 16.8% for the years ended 31 December 2011, 2012 and 2013, respectively.

The decrease in net profit margin for the year ended 31 December 2012 was primarily attributable to the decrease in gross profit and gross profit margin, increase in income tax expense for the year ended 31 December 2012 and payment of approximately HK\$8.2 million tax penalty and a provision of profit tax on disposal of subsidiaries. Our net profit margin increased to 16.9% for the year ended 31 December 2013 mainly due to the increase in our gross profit and gross profit margin, decrease in income tax expenses and there was no further tax penalty being charged for the year ended 31 December 2013.

### **Return on assets**

For the years ended 31 December 2011, 2012 and 2013, our return on assets amounted to approximately 5.2%, 4.5% and 12.7%, respectively.

Our return on assets remained relatively stable for the year ended 31 December 2012 and 2013. The increase in return on assets for the year ended 31 December 2013 was primarily attributable to the increase in our net profit for the year ended 31 December 2013.

### **Return on equity**

For the years ended 31 December 2011, 2012 and 2013, our return on equity amounted to approximately 23.5%, 28.5% and 53.1%, respectively. Excluding non-operating items, our return on equity amounted to approximately 20.2%, 7.6% and 52.8% for the years ended 31 December 2011, 2012 and 2013, respectively.

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The increase in return on equity in the year ended 31 December 2012 was primarily attributable to the decrease in total equity as at 31 December 2012 as a result of declaration of dividend of approximately HK\$111.3 million in 2012. On the other hand, the decrease in our return on equity excluding non-operating items for the year ended 31 December 2012 was mainly due to a decrease in our adjusted net profit for the year ended 31 December 2012. The increase in return on equity for the year ended 31 December 2013 was primarily due to the increase in the total comprehensive income for the year attributable to the owners of our Company by approximately 3.0 times.

### **Current ratio**

As at 31 December 2011, 2012 and 2013, our current ratio amounted to approximately 0.8, 1.0 and 1.2, respectively.

The increase from year 2011 to year 2012 was mainly attributable to the decrease in bank borrowings from approximately HK\$517.9 million to approximately HK\$342.8 million and the increase in inventory from approximately HK\$132.4 million as at 31 December 2011 to approximately HK\$324.8 million as at 31 December 2012. The current ratio remained stable as at 31 December 2012 and 2013.

### **Quick ratio**

As at 31 December 2011, 2012 and 2013, our quick ratio amounted to approximately 0.6, 0.5 and 0.5, respectively.

The decrease in quick ratio as at 31 December 2012 was due to the increase in trade and other payables and decrease in trade and other receivables. The quick ratio remained the same as at 31 December 2013.

### **Debt to equity ratio**

As at 31 December 2011, 2012 and 2013, our debt to equity ratio amounted to approximately 264.6%, 289.3% and 129.8%, respectively.

The increase in debt to equity ratio as at 31 December 2012 was primarily attributable to the combined effect of the decrease in our bank borrowings from approximately HK\$517.9 million as at 31 December 2011 to approximately HK\$342.8 million as at 31 December 2012 and decrease in our total equity from approximately HK\$189.0 million as at 31 December 2011 to approximately HK\$113.6 million as at 31 December 2012 as a result of declaration of dividend of HK\$111.3 million in 2012. The decrease in debt to equity ratio as at 31 December 2013 was mainly attributable to the increase in bank balance and cash from approximately HK\$14.2 million as at 31 December 2012 to approximately HK\$47.4 million as at 31 December 2013 and the increase in the total equity from approximately HK\$113.6 million as at 31 December 2012 to approximately HK\$242.2 million as at 31 December 2013 as a result of an increase in profit during the year 2013.

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### Interest coverage ratio

For the years ended 31 December 2011, 2012 and 2013, our interest coverage ratio amounted to approximately 4 times, 5 times and 15 times, respectively. The interest coverage ratio remained stable for the years ended 31 December 2011 and 2012.

The increase in interest coverage ratio for the year ended 31 December 2013 was primarily attributable to the decrease in finance costs from approximately HK\$15.8 million for the year ended 31 December 2012 to approximately HK\$11.0 million for the year ended 31 December 2013 as a result of a decrease in the average balance on the bank loan and overdrafts wholly repayable within five years. In addition, there was an increase in our profit before interest and tax during the year, mainly attributable to the increase in our sales and gross profit for the year ended 31 December 2013.

### Gearing ratio

As at 31 December 2011, 2012 and 2013, our gearing ratio amounted to approximately 274.0%, 301.8% and 149.3%, respectively.

The increase in gearing ratio as at 31 December 2012 was primarily attributable to the combined effort of the decrease in our bank borrowings from approximately HK\$517.9 million as at 31 December 2011 to approximately HK\$342.8 million as at 31 December 2012 and decrease in our total equity from approximately HK\$189.0 million as at 31 December 2011 to approximately HK\$113.6 million as at 31 December 2012 as a result of declaration of dividend of HK\$111.3 million for the year ended 31 December 2012. The decrease in gearing ratio as at 31 December 2013 mainly due to an increase in our total equity as a result of increase in our profit for the year ended 31 December 2013 when compared to that of 2012 while our total borrowing remained relatively stable.

### WORKING CAPITAL

Our Directors believe that after taking into account the financial resources presently available to us, including cash flow from operations, banking facilities, other internal resources and the estimated net proceeds from the Global Offering, we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this prospectus.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we have not entered into any off-balance sheet transactions.

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### INDEBTEDNESS

#### Borrowings

Our outstanding balance of borrowings as at 31 December 2011, 2012 and 2013 was approximately HK\$520.9 million, HK\$348.7 million and HK\$365.8 million, respectively. The following table sets forth our indebtedness as at the dates indicated:

	As at 31 December			As at 30 April
	2011	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Bank borrowings	517,901	342,822	361,717	362,519
Obligations under finance leases	3,013	5,871	4,101	3,515
<b>Total</b>	<b><u>520,914</u></b>	<b><u>348,693</u></b>	<b><u>365,818</u></b>	<b><u>366,034</u></b>

The following table sets forth a breakdown of our bank borrowings as at the dates indicated:

	As at 31 December			As at 30 April
	2011	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Bank overdrafts	17,135	3,224	9,158	460
Bank loans				
Trust receipt loans	331,825	310,092	304,886	314,719
Mortgage loans	115,643	15,144	12,845	19,505
Other bank loans	53,298	14,362	34,828	27,835
<b>Total</b>	<b><u>517,901</u></b>	<b><u>342,822</u></b>	<b><u>361,717</u></b>	<b><u>362,519</u></b>

Our bank borrowings decreased from approximately HK\$517.9 million as at 31 December 2011 to approximately HK\$342.8 million as at 31 December 2012 as we gradually repaid our bank borrowings during the year.

Our bank borrowings increased from approximately HK\$342.8 million as at 31 December 2012 to approximately HK\$361.7 million as at 31 December 2013 as the amount of other bank loans we obtained increased which was offset by the decrease in the amount of trust receipt loans.

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Our bank loans comprised variable-rate loans which carry interest with reference to the Hong Kong Interbank Offered Rate and fixed-rate loans. The effective interest rate on the bank loans ranged from 0.87% to 5.5%, 0.99% to 23.16% and 1.21% to 6% for the years ended 31 December 2011, 2012 and 2013, respectively.

Our trust receipt loans provided by licensed banks in Hong Kong represent short term loans for the payment to our overseas suppliers. The balance of our trust receipt loan as at 31 December 2011 was higher than our purchases for the year ended 31 December 2011, primarily because we sold part of our purchases of Cultivated Ginseng before the delivery to Hong Kong to two suppliers in Canada during the second half of 2011.

As the supply of Cultivated Ginseng is limited every year and in order to secure a sufficient supply of quality Cultivated Ginseng for our customers, occasionally when necessary, we may attend to payment of our suppliers' invoices prior to the delivery of the Cultivated Ginseng to us, or even before harvesting. Throughout the second half of 2011, our executive Directors considered that our purchases of certain Cultivated Ginseng, amounted to approximately USD37.8 million, could only be sold at a thin margin in Hong Kong given their quality and the then market price. The average cost of such Cultivated Ginseng was approximately HK\$426 per kg, while our Group's average selling price of Cultivated Ginseng of similar quality for the second half of 2011 was approximately HK\$429.9 per kg. Our executive Directors therefore decided to sell such Cultivated Ginseng to the respective suppliers in Canada at the initial purchase costs, instead of shipping such Cultivated Ginseng to Hong Kong. As such Cultivated Ginseng were not physically transferred to us before we sold them to our suppliers, the risk and reward of such Cultivated Ginseng were not transferred to our Group. We therefore recorded such sale of our purchases of Cultivated Ginseng as a net off amount with our respective purchase orders during 2011. Our Directors confirm that such accounting treatment complies with the applicable accounting policy adopted by the Group. Our Hong Kong Legal Counsel is of the opinion that the above arrangement would not constitute a breach of the applicable rules and regulations on the ground that at the time when our Group applied to the banks for drawdowns of the trust receipt loan facilities, it in fact intended to import the relevant Cultivated Ginseng into Hong Kong. Our Hong Kong Legal Counsel is of the view that our Group's retention of the trust receipt loans after the sales of the relevant Cultivated Ginseng to the respective suppliers was not a breach of any express provision in our contracts with the banks and should not be a breach of any implied provision in such contracts. However, as all such trust receipt loans were subsequently repaid in full and with interest and the banks had suffered no loss and damage as a result, the banks should be entitled to no more than nominal damages, even if our Group were in breach of its contracts with the banks. Our Directors confirm that, up to the Latest Practicable Date, there were no pending or, to our knowledge, threatened against us or any of our Directors by the banks in relation to such trust receipt loans. Our Directors further confirmed that there was no material purchase orders sold under similar arrangements for the years ended 31 December 2012 and 2013.



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The following table sets forth the maturity profile of our bank borrowings as at the dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Within one year	401,728	326,393	350,771	345,100
Not within one year but contain a repayment on demand clause	116,173	16,429	10,946	17,418
<b>Total</b>	<b>517,901</b>	<b>342,822</b>	<b>361,717</b>	<b>362,519</b>

Our bank borrowings were secured by pledged buildings, investment properties and bank deposits having a carrying value of approximately HK\$387.9 million, HK\$112.0 million, HK\$108.3 million and HK\$128.3 million at 31 December 2011, 2012, 2013 and at 30 April 2014, respectively as well as certain assets owned by certain Directors, together with guarantees provided by entities within our Group and personal guarantees provided by our Directors. The following table sets forth an analysis of the secured bank borrowings as at the dates indicated:

	As at 31 December			As at
	2011	2012	2013	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Secured	517,901	342,822	361,717	362,519

The relevant banks have given consent in principle to release all such personal guarantees and securities by certain assets owned by certain Directors upon Listing.

As at 31 December 2013, we had total banking facilities of approximately HK\$385.2 million, of which approximately HK\$23.5 million were unutilised. Our Directors confirm that the recent global financial market volatility has not affected our Group's ability to obtain external financing going forward and there has not been any credit tightening in the countries where our Group operates, and that our Group does not have any external financing plans as at the Latest Practicable Date.

Our Group's banking facilities contain covenants that, among other things, require us to seek consent from certain banks prior to the payment of dividends or maintain a certain amount of tangible net worth. Our Directors confirm that there had been no delay or default in repayment of bank borrowings or material non-compliance with the covenants contained in our banking facilities throughout the Track Record Period and as at the Latest Practicable Date.

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Our obligation under finance lease mainly represented finance lease payables for certain of our motor vehicles and office equipments. Our obligation under finance leases increased from approximately HK\$3.0 million as at 31 December 2011 to approximately HK\$5.9 million as at 31 December 2012 as we entered into a finance lease arrangement in respect of a motor vehicle purchased during the year. Our obligation under finance lease decreased to approximately HK\$4.1 million as at 31 December 2013, the decrease was mainly attributable to the settlement of finance lease obligation with no material additional finance lease obligation during the years ended 31 December 2013 and we sold a motor vehicle during the year.

### **Statement of indebtedness**

As at 30 April 2014, being the latest practicable date for the purpose of this indebtedness statement, except as disclosed in the paragraph headed “Indebtedness” in this section of this prospectus, our Group did not have any other outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

Our Directors confirm that there has not been any material change in our indebtedness position since the indebtedness statement date of this prospectus.

### **Contingent liabilities**

During the Track Record Period and as at the Latest Practicable Date, we are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceeds, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Our Directors confirm that there had not been any material change in the contingent liabilities of our Company since the indebtedness statement date of this prospectus.

### **DIVIDEND AND DIVIDEND POLICY**

Our Company has not declared or paid any dividends for the years ended 31 December 2011, 2012 and 2013.

HF Hong declared and paid dividends of approximately HK\$78.5 million and HK\$61.3 million to its shareholders during the years ended 31 December 2011 and 2012, respectively. In addition, HF Ginseng Importer declared and paid a dividend of approximately HK\$50.0 million during the year ended 31 December 2012 to its shareholders. On 21 May 2014, each of HF Hong, HF Ginseng Importer, HF Importer and Hang Fat (2013) declared and paid a dividend of HK\$25 million, HK\$50 million, HK\$95 million and HK\$40 million, to their respective shareholders, respectively. After Listing, the declaration of dividends will be subject to the approvals of our Board after considering the factors below and by our then Shareholders.

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The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the factors described above, our Directors currently intend to recommend at the relevant shareholders meetings an annual dividend of 50% of the net profit available for distribution to our Shareholders for the year ending 31 December 2014 following the Global Offering, and an annual dividend of no less than 30% of the net profit available for distribution to our Shareholders in the subsequent years in foreseeable future. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay any dividends at all; and our dividend policy may also change from time to time subject to the factors described above.

### **RELATED PARTY TRANSACTIONS**

With respect to the related parties transactions set out in Note 32 to the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or our terms that are not less favourable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of our Shareholders as a whole. Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective during the Track Record Period.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2013, our Company did not have any distributable reserves available for distribution to our equity holders.

### **PROPERTY INTERESTS**

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued the investment property interests attributable to us as at 30 April 2014 at approximately HK\$84.5 million. There was a decrease in fair value of HK\$2.5 million from approximately HK\$87.0 million as at 31 December 2013. The full text of its letter and valuation certificate with regard to such property interests are set out in Appendix III to this prospectus.

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## FINANCIAL INFORMATION

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Also, as at 30 April 2014, our net book value of leasehold land and buildings was approximately HK\$28.6 million, which represented an increase of approximately HK\$20.0 million from approximately HK\$8.6 million as at 31 December 2013. The increase in amount was mainly due to the acquisition of 3 properties during the four months ended 30 April 2014. These 3 properties, with an aggregate gross floor area of approximately 1,938 square feet, are expected to be used as office after renovation is completed in September 2014 tentatively. Please refer to the “Business – Properties” section in this prospectus for details.

The tables below show the reconciliation of the valuation of the investment property of our Group as at 31 December 2013 as set out in Appendix I to this prospectus to the valuation of investment property of our Group as at 30 April 2014 as set out in Appendix III to this prospectus:

	<b>Investment Property Total</b> <i>HK\$'000</i>
Net book value as at 31 December 2013	87,000
Less: decrease in fair value as at 30 April 2014	<u>(2,500)</u>
Valuation as at 30 April 2014 as set out in Appendix III to this prospectus	<u><u>84,500</u></u>

## QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Our Group's major financial instruments include trade and other receivables, amount due from a director, pledged bank deposits, bank balances and cash, derivative financial instruments, trade and other payables, obligations under finance leases and bank borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Our management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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## FINANCIAL INFORMATION

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### **Credit risk**

Our maximum exposure to credit risk which will cause a financial loss to us in the event of the counterparties failure to perform their obligations as at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statements of financial position.

In order to minimise the credit risk, our management is responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, our management reviews the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, our management considers that our credit risk is significant reduced.

We have concentration of credit risk. Trade receivables from our top five customers accounted for approximately 92.0%, 72.0% and 86.0% of total trade receivables as at 31 December 2011, 2012 and 2013, respectively. The largest trade receivable from a customer by itself accounted for approximately 32.3%, 39.3% and 43.4% of total trade receivables as at 31 December 2011, 2012 and 2013, respectively.

We have concentration of credit risk on amounts from related companies that are controlled by Mr. Matthew Yeung as at 31 December 2011 and 2012. We also have concentration of credit risk on amount due from a director, Mr. Matthew Yeung, as at 31 December 2011, 2012 and 2013. The management considers the credit risk is not significant because the counterparties are of sound financial position.

The credit risk on liquid funds is limited because our bank balances are deposited with banks of high credit ratings in Hong Kong.

### **Currency risk**

Certain Group entities have foreign currency sales, which expose our Group to foreign currency risk. During the years ended 31 December 2011, 2012 and 2013, approximately 92%, 66% and 77% of our sales were denominated in currencies other than the functional currency of our Group entities, respectively. Our Group entities also have foreign currency purchases, which also expose us to foreign currency risk. During the years ended 31 December 2011, 2012 and 2013, approximately 95%, 81% and 86% of our purchases were denominated in currencies other than the functional currency of our Group entities, respectively. During the Track Record Period, we do not have entered into any foreign currency forward contracts for hedging purpose. Our management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

We are mainly exposed to fluctuations in the RMB, CAD and U.S. dollar, which are arising from relevant Group entities' foreign currency, i.e. currency other than the functional currency of our Group, denominated monetary assets and liabilities for our operating activities.

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## FINANCIAL INFORMATION

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The following table details our sensitivity to a 5% appreciation and depreciation in RMB and CAD against HK\$ for the operations. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. Under the linked exchange rate system, the financial impact on exchange difference between HK\$ and US\$ will be immaterial and therefore sensitivity analysis in US\$ is not presented.

A negative number below indicates a decrease in profit after taxation for the years ended 31 December 2011, 2012 and 2013 where the HK\$ strengthen 5% against the relevant currencies. For a 5% weakening of the HK\$ against relevant currencies, there would be an equal and opposite impact on the profit.

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
(Decrease) increase in profit after taxation for the year			
RMB	(5,530)	(2,078)	(1,912)
CAD	<u>3,941</u>	<u>11,828</u>	<u>10,239</u>

### Liquidity risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. Based on the good working relationship with our banks and to optimise the use of our liquid funds, we will consider to renew the bank loans upon their maturities.

### Interest rate risk management

We are exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing bank balances, pledged bank deposits and bank borrowings at variable interest rates. We currently do not have an interest rate hedging policy. However, our management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and bank borrowings at variable interest rates at the end of each reporting period and assumed that the amount of assets and liabilities outstanding at the end of each reporting period was outstanding for the whole year. 30 basis points increase was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable possible change in interest rates. Our management does not anticipate a decrease in interest rate in the next financial year having regard to the trends in Hong Kong Interbank Offered Rate. Accordingly, sensitivity analysis on a decrease in interest rates is not presented.

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## FINANCIAL INFORMATION

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If interest rates on pledged bank deposits, bank balances and bank borrowings at variables interest rates had been 30 basis points higher and all other variables were held constant, the potential effect on profit after taxation for each year is as follows:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease in profit for the year	<u>1,151</u>	<u>778</u>	<u>766</u>

### **DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES**

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of us since 31 December 2013 and there is no event since 31 December 2013 which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our combined net tangible assets following the Global Offering. The following unaudited pro forma adjusted combined net tangible assets is set out here to illustrate the effect of the Global Offering on our audited combined net tangible assets as at 31 December 2013 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets statement does not form part of the Accountants' Report.

	<b>Audited combined net tangible assets of our Group as at 31 December 2013 HK\$'000 (Note 1)</b>	<b>Estimated net proceeds from the Global Offering HK\$'000 (Note 2)</b>	<b>Unaudited pro forma adjusted combined net tangible assets HK\$'000</b>	<b>Unaudited pro forma adjusted combined net tangible assets per Share HK\$ (Note 3)</b>
Based on an Offer Price of HK\$1.44 per Offer Share	242,200	672,568	914,768	0.46
Based on an Offer Price of HK\$1.98 per Offer Share	242,200	933,097	1,175,297	0.59

*Notes:*

- (1) The audited combined net tangible assets of our Group as at 31 December 2013 is based on the combined net assets of our Group as shown in the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering to be received by our Company are based on 500,000,000 New Shares at the respective Offer Price of HK\$1.44 and HK\$1.98 per Offer Share after deduction of underwriting fees and other related fees and expenses incurred and to be incurred by our Company since 1 January 2014. The calculation of such estimated net proceeds does not take into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Repurchase Mandate approved on 9 June 2014 which is set out in Appendix V to this prospectus.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at on the basis that 2,000,000,000 Shares were in issue assuming that the Capitalisation Issue and the Global Offering had been completed on 31 December 2013 and does not take into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the Repurchase Mandate approved on 9 June 2014 which is set out in Appendix V to this prospectus.
- (4) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2013. No adjustment has been made to reflect the declaration of dividend in an amount of HK\$210 million in May 2014.



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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please refer to the “Business – Our Business Strategies” section in this prospectus for a detailed discussion of our future plans.

### USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$791.2 million, after deducting the underwriting fees and commissions and other estimated expenses payable by us in relation to the Global Offering, assuming the Over-allotment Option is not exercised and the Offer Price is HK\$1.71 per Offer Share, being mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. We intend to apply the net proceeds from the Global Offering for the following purposes:

<b>Amount of proceeds (%)</b>	<b>Intended application of proceeds</b>
HK\$553.9 million (70%)	To strengthen our purchasing power and increase our market share in the wholesale market of Cultivated Ginseng and Wild Ginseng. Based on the current market demand and supply, our Directors estimate that within the approximately HK\$553.9 million, approximately 90% will be utilised for purchase of Cultivated Ginseng and approximately 10% will be utilised for purchase of Wild Ginseng, all of which will be offered for sale to our customers. We will adjust the current estimation as necessary with reference to the then market demand and supply conditions.
HK\$134.5 million (17%)	To repay certain outstanding bank loans, all of which are working capital loans with interest rates ranging from 2.22% to 6% and were drawdown in or after July 2009 and can be due before February 2019.
HK\$23.7 million (3%)	To advertise and market our Hang Fat (恒發) brand and expand our retail presence through the establishment of store-in-store concessions, to expand our retail operation department and to recruit sales personnel for managing our store-in-store concessions.
HK\$79.1 million (10%)	For general working capital and other general corporate purposes.

Assuming the Over-allotment option is not exercised, if the Offer Price is set at HK\$1.44, being the low-end of the indicative Offer Price, or HK\$1.98, being the high-end of the indicative Offer Price, our net proceeds will be decreased to approximately HK\$661.0 million or increased to approximately HK\$921.5 million, respectively. In the event that the Offer Price is set at the high-end or low-end of the indicative Offer Price range or the Over-allotment Option is exercised, our intended use of proceeds will be increased or decreased on a pro-rata basis.

To the extent that any of our net proceeds from the Global Offering are not applied immediately, we intend to deposit them in interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

Our Directors may reallocate the use of proceeds from the Global Offering should any of the above future plans not be implemented. In such event, we will comply with the appropriate requirements under the Listing Rules and issue announcement(s) if there are any material changes or modifications to the use of proceeds from the Global Offering.

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## UNDERWRITING

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### SOLE GLOBAL COORDINATOR

CMB International Capital Limited

### JOINT BOOKRUNNERS

CMB International Capital Limited  
Ping An of China Securities (Hong Kong) Company Limited

### HONG KONG UNDERWRITERS

#### Joint Lead Managers

CMB International Securities Limited  
Ping An of China Securities (Hong Kong) Company Limited

#### Co-lead Manager

KGI Asia Limited

#### Co-Managers

Asian Capital (Corporate Finance) Limited  
BMI Securities Limited  
Bright Smart Securities International (H.K.) Limited  
China Investment Securities International Brokerage Limited  
Qilu International Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### (a) Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering 50,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares (including the additional Shares to be issued pursuant to the Capitalisation Issue, the exercise of the options which may be granted under the Share Option Scheme, and pursuant to the exercise of the Over-allotment Option); and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement, for the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

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## UNDERWRITING

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The Hong Kong Underwriting Agreement is conditional on and subject to the International Placing Agreement having been signed and becoming unconditional.

### *Grounds for Termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares are subject to termination if prior to 8:00 a.m. on the Listing Date:

- (A) there shall develop, occur, exist or come into effect:
- (1) any change or prospective change (whether or not permanent) in the business or in the earnings, operations, financial or trading position or prospects of our Group or any change in capital stock or long-term debt of our Company or any other member of our Group, which (in any such case) is not set forth or contemplated in this prospectus; or
  - (2) any change or development involving a prospective change or development, or any event or series of events resulting or representing or may result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any of Hong Kong, the PRC, the BVI, the Cayman Islands, the United States, Canada, any member of the European Union, Singapore, Japan or any other jurisdictions where any member of our Group is incorporated (collectively, the “Relevant Jurisdictions”); or
  - (3) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
  - (4) any new law or any change (whether or not forming part of a series of changes) or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
  - (5) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or

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## UNDERWRITING

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- (6) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or
- (7) any event, act or omission which gives rise to or may give rise to any material liability of any of our Company, our executive Directors and our Controlling Shareholders pursuant to the Hong Kong Underwriting Agreement; or
- (8) the imposition or declaration of (i) any suspension or restriction on dealings in shares or securities generally on the New York Stock Exchange, the NASDAQ Stock Market, the London Stock Exchange, the Toronto Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, the Stock Exchange and Singapore Stock Exchange or any other major international stock exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (9) the imposition of economic, political or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (10) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, drought, flooding, severe snow or hail storms, explosion, earthquake, hurricanes, tornadoes, volcanic eruption, epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, radiation or chemical contaminations, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or
- (11) any change or development or event involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” of this prospectus; or
- (12) any change in the system under which the value of the HK dollar or is linked to that of the U.S. dollar or the value of the Renminbi (the lawful currency of the PRC) is determined with reference to a basket of world currencies or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currency; or
- (13) any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

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## UNDERWRITING

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- (14) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (15) a prohibition our the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares which may be issued pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (16) material non-compliance of any statement or disclosure of this prospectus or Application Forms or any aspect of the Global Offering with the Listing Rules or any other applicable law; or
- (17) other than with the prior approval of the Sole Global Coordinator (for itself and on behalf of other Hong Kong Underwriters), the issue or requirement to issue by our Company of a supplementary prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) pursuant to the Cap. 622 Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (18) an order is made or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (19) any litigation or claim of any third party being threatened or instigated against any member of our Group; or
- (20) a Director being charged with an indictable offence or prohibited by operation of law or is otherwise disqualified from being a director or taking part in the management of a company; or
- (21) the chairman or chief executive officer or chief financial officer of our Company vacating his office; or
- (22) the commencement by any governmental, regulatory, political or judicial body or organisation of any action against a Director or any member of our Group or an announcement by any governmental, regulatory, political or judicial body or organisation that it intends to take any such action; or
- (23) our Company withdraws any of this prospectus or the Application Forms (and/or any other documents used in connection with the contemplated subscription of the Offer Shares); or

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## UNDERWRITING

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- (24) any person (other than any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement) and/or any other documents used in connection with the contemplated subscription of the Offer Shares, or to the issue of any such documents,

which, whether individually or in the aggregate, after consulting with our Company to the extent that the Sole Global Coordinator determines that it is appropriate and practicable under the circumstances, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (a) has or will or may have a material adverse effect on the business, financial, trading or other condition or prospects of any member of our Group or our Group taken as a whole and/or to any present or prospective shareholder in its capacity as such; or
  - (b) has or will or may have a material adverse effect on the success of the Hong Kong Public Offering, the International Placing or the level of Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
  - (c) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Hong Kong Underwriting Agreement, the International Placing Agreement, the Hong Kong Public Offering, the International Placing and/or the Global Offering to be performed or implemented as envisaged or (ii) to proceed with or to market the Hong Kong Public Offering, the International Placing and/or the Global Offering on the terms and in the manner contemplated in this prospectus; or
- (B) any of the Hong Kong Underwriters shall become aware of the fact that, or have cause to believe that:
- (1) any of the warranties or undertakings given by our Company, our executive Directors and/or our Controlling Shareholders under the Hong Kong Underwriting Agreement is untrue, inaccurate, misleading or breached in any respect when given or as repeated as determined by the Sole Global Coordinator in its sole and absolute discretion or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable; or
  - (2) any statement contained in this prospectus, the Application Forms, the formal notice or any announcements issued by our Company in respect of the Hong Kong Public Offering, the International Placing and/or the Global Offering was or is untrue, incorrect or misleading in any respect, or any matter arises or is discovered which would, if this prospectus, the Application Forms, the formal notice and any announcements issued by our Company in respect of the Hong Kong Public Offering, the International Placing and/or the Global Offering were to be issued at that time, constitute an omission therefrom as determined by the Sole Global Coordinator in its sole and absolute discretion; or

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## UNDERWRITING

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- (3) any forecasts, expressions of opinion, intention or expectation expressed in this Prospectus, at the Application Forms, formal notice and/or any announcements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) are not fair and honest nor based on reasonable assumptions; or
- (4) there has been a breach on the part of any of our Company, our executive Directors and/or our Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Placing Agreement as determined by the Sole Global Coordinator in its sole and absolute discretion,

then the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) may in its sole and absolute discretion terminate the Hong Kong Underwriting Agreement with immediate effect by notice (orally or in writing) to our Company.

**(b) International Placing Agreement**

In connection with the International Placing, it is expected that we will enter into the International Placing Agreement with, among others, the International Underwriters.

Our Company expects to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, after consultation with the Sole Global Coordinator from the Listing Date until and including the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to sell up to an aggregate of 75,000,000 Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price, among other things, to cover over-allocations, if any, in the International Placing.

**(c) Undertakings pursuant to the Hong Kong Underwriting Agreement**

*Undertakings of our Company*

Except pursuant to the Capitalisation Issue, the Global Offering (including pursuant to the Over-allotment Option) and the options that may be granted under the Share Option Scheme, during the period commencing on the date of this prospectus and ending on, and including, the date that is six months after the Listing Date (the “First Six-Month Period”), our Company has undertaken to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor and unless in compliance with the requirements of the Listing Rules:

- (1) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the

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## UNDERWRITING

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disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares); or

- (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities; or
- (3) enter into any transaction with the same economic effect as any transaction specified in (1) or (2) above; or
- (4) offer or agree to do any foregoing transactions and publicly disclose any intention to effect such transaction,

in each case, whether any of the transactions specified in (1), (2) or (3) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “Second Six-Month Period”), our Company enters into any of the transactions specified in (1), (2) or (3) above, or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of our Controlling Shareholders undertakes to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor to procure our Company to comply with the undertakings above.

### *Undertakings of our Controlling Shareholders*

Our Controlling Shareholders have also undertaken to each of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor that, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and the Sole Sponsor and unless in compliance with the requirements of the Listing Rules:

- (1) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or



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## UNDERWRITING

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that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

- (2) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (3) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

### **(d) Underwriting Commission and Listing Expenses**

The Hong Kong Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Underwriting Agreement. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay a placing commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. In addition, we agreed, at our sole discretion, to pay the Sole Global Coordinator a discretionary incentive fee of up to 0.5% of the aggregate Offer Price payable for the Offer Shares, including any additional Shares allotted and issued pursuant to the Over-allotment Option.

The aggregate commissions and fees (exclusive of any discretionary incentive fees), including the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, which are currently estimated to be approximately HK\$63.7 million in aggregate (based on an Offer Price of HK\$1.71 per Offer Share, being the mid-point of the stated price range of the Offer Price between HK\$1.44 and HK\$1.98 per Offer Share, and the assumption that the Over-allotment Option is not exercised) are to be borne by our Company.

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## UNDERWRITING

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### (e) Underwriters' Interests in our Company

Save for its obligations under the relevant Underwriting Agreements or as otherwise disclosed in this prospectus, none of the Underwriters owns any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares or securities in our Company or any member of our Group.

### UNDERTAKINGS IN FAVOUR OF THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

#### (a) By our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) will be issued by our Company or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or securities of our Company will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

#### (b) By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to us, the Stock Exchange and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Hong Kong Underwriters that he/it shall not and shall procure that the relevant registered holder shall not, without the prior written consent of the Stock Exchange, except pursuant to the Global Offering or the Capitalisation Issue or the Over-allotment Option or the Stock Borrowing Agreement:

- (i) at any time during the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown in this prospectus to be the beneficial owner; or
- (ii) at any time during the period of six months commencing on the date on which the period referred to in paragraph (i) above expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholder (as defined in the Listing Rules).

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## UNDERWRITING

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Each of our Controlling Shareholders has also undertaken to us, the Stock Exchange, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor and the other Hong Kong Underwriters that it will, within the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us and the Stock Exchange, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters of:

- (i) any pledges or charges of any of the Shares or securities of our Company beneficially owned by him/it in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, and the number of such Shares or securities of our Company so pledged or charged; and
- (ii) any indication received by him/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares will be disposed of.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. CMB International is the Sole Global Coordinator and the Sole Sponsor; CMB International and Ping An are the Joint Bookrunners; and CMBIS and Ping An are the Joint Lead Managers for the Global Offering. We intend to initially make available up to 500,000,000 Shares under the Global Offering, of which 450,000,000 Shares will be conditionally placed pursuant to the International Placing to professional, institutional and other investors and the remaining 50,000,000 Shares will be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under the paragraph headed “Hong Kong Public Offering”).

The 500,000,000 Offer Shares initially being offered in the Global Offering will represent approximately 25% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The placing arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting”.

Investors may apply for the Shares under the Hong Kong Public Offering or apply for or indicate an interest for the Shares under the International Placing, but may not apply under both of these methods for the Offer Shares. In other words, you may only receive Offer Shares under either the Hong Kong Public Offering or the International Placing, but not under both of these methods. The number of Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to re-allocation as described in the paragraph headed “Allocation” below.

### HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a several basis under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. The Hong Kong Public Offering and the International Placing are subject to the conditions set forth in the paragraph headed “Conditions of the Global Offering” below. The Hong Kong Underwriting Agreement and the International Placing Agreement are expected to be conditional upon each other.

#### Number of Shares initially offered

The Hong Kong Public Offering is a fully underwritten public offering (subject to satisfaction or waiver of the other conditions set forth in the Hong Kong Underwriting Agreement and described in the paragraph below headed “Conditions of the Global Offering”) for the subscription in Hong Kong of, initially 50,000,000 Shares at the Offer Price (representing approximately 10% of the total number of the Offer Shares).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

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## STRUCTURE OF THE GLOBAL OFFERING

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### **Allocation**

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering, the total number of Shares available under the Hong Kong Public Offering will represent 10% of our Company's enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised. It is to be divided equally into two pools for allocation purposes (subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering): pool A and pool B. The Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Shares with an aggregate subscription price of HK\$5 million or less (excluding the amounts of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% per board lot of 2,000 Shares). The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to successful applicants who have applied for our Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% per board lot 2,000 Shares) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and may only apply for Public Offer Shares in either pool A or pool B but not in both pools. Multiple or suspected multiple applications within pool A or pool B, and between the two pools, and any application for more than the total number of our Shares originally allocated to each pool will be rejected.

### **Reallocation**

The allocation of the Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, or (iii) 100 times or more of the number of Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing, such that the total number of Shares available under the Hong Kong Public Offering will be increased to 150,000,000 Shares (in the case of (i)), 200,000,000 Shares (in the case of (ii)) and 250,000,000 Shares (in the case of (iii)) representing 30%, 40% and 50% of the Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment

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## STRUCTURE OF THE GLOBAL OFFERING

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Option). In each case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator deem appropriate. In addition, the Sole Global Coordinator may, in their sole discretion, allocate Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deem appropriate.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application may be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he or she has been or will be placed or allocated Offer Shares under the International Placing.

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$1.98 per Offer Share in addition to any brokerage fee, SFC transaction levy and Stock Exchange trading fee payable on each Share.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

### **INTERNATIONAL PLACING**

The International Placing is expected to be fully underwritten by the International Underwriters on a several basis. Our Company expects to enter into the International Placing Agreement relating to the International Placing with, among others, our Controlling Shareholders, the International Underwriters and the Sole Global Coordinator. The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

### **Number of Shares offered**

Subject to reallocation as described above, the number of Offer Shares to be initially offered under the International Placing will be 450,000,000 Shares, representing approximately 90% of the Offer Shares under the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Allocation

Pursuant to the International Placing, 450,000,000 Offer Shares will be conditionally placed on behalf of our Company, by the International Underwriters or through selling agents appointed by them. The International Placing will involve selective marketing of the Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of International Placing Shares will be determined by the Sole Global Coordinator, and will be effected in accordance with the “book-building” process described in the section headed “Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our Company’s benefit and that of our Shareholders as a whole.

Our Directors, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offering.

### OVER-ALLOTMENT OPTION AND STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, our Company intends to grant the Over-allotment Option to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Placing Agreement until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering and from time to time, to require our Company to allot and issue up to an aggregate of 75,000,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share at which Offer Shares were initially offered under the International Placing, to cover over-allocations in the International Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. The Sole Global Coordinator may, at its option, also cover such over-allocations by purchasing the Offer Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws, rules and regulations. If the Sole Global Coordinator exercises the Over-allotment Option in full, the additional Offer Shares will represent approximately 3.61% of our Company’s enlarged issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

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## STRUCTURE OF THE GLOBAL OFFERING

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In order to facilitate settlement of over-allocations in connection with the International Placing, the Stabilising Manager will enter into the Stock Borrowing Agreement with Cervera. Under the Stock Borrowing Agreement, Cervera agrees with the Stabilising Manager, that if requested by the Stabilising Manager, it will, subject to the terms of the Stock Borrowing Agreement, make available to the Stabilising Manager up to 75,000,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the International Placing, if any.

The Stock Borrowing Agreement, in compliance with Rule 10.07(3) of the Listing Rules, provides that:

- such stock borrowing arrangement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Cervera under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed may be returned to Cervera or its nominees (as the case may be) within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;
- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable listing rules, laws, rules and regulatory requirements; and
- no payment will be made to Cervera by the Stabilising Manager in relation to such borrowing arrangement.

## PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring International Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

Pricing for the Offer Shares for the purpose of the offerings under the Global Offering will be fixed on the Price Determination Date, when market demand for the Shares will be determined, which is expected to be on or around Friday, 20 June 2014, and in any event on or before Wednesday, 25 June 2014, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company and the number of Shares to be allocated under offerings will be determined shortly thereafter. If, for any reason, the Offer Price is not agreed by Wednesday, 25 June 2014 between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.



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## STRUCTURE OF THE GLOBAL OFFERING

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The Offer Price will not be more than HK\$1.98 per Offer Share and is expected to be not less than HK\$1.44 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Global Offering must pay, on application, the maximum Offer Price of HK\$1.98 per Offer Share plus 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee amounting to a total of HK\$3,999.92 per board lot of 2,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus. If the Offer Price, as finally determined in the manner described below, is lower than HK\$1.98, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus monies) to successful applicants, without interest. Please refer to the section headed “How to apply for Hong Kong Offer Shares” for further details.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our Company’s consent, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such a reduction, our Company will, as soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of our Company ([www.hangfatg.com](http://www.hangfatg.com)) notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range. Upon issue of these notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator, on behalf of the Underwriters, and us, will be fixed within this revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. The notices will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of such reduction. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once they are submitted, even if the number of Hong Kong Offer Shares and/or the Offer Price range is reduced as described in this paragraph. In the absence of any notice of reduction published as described in this paragraph, the Offer Price, if agreed upon between our Company and the Sole Global Coordinator, on behalf of the Underwriters, will be within the Offer Price range as stated in the prospectus.

The net proceeds of the Global Offering accruing to our Company (after deduction of placing fees and estimated expenses payable by our Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$661.0 million, assuming an Offer Price of HK\$1.44 per Offer Share, or approximately HK\$921.5 million, assuming an Offer Price of HK\$1.98 per Offer Share (or if the Over-allotment Option is exercised in full, approximately HK\$765.2 million, assuming an Offer Price of HK\$1.44 per Offer Share, or approximately HK\$1,064.8 million, assuming an Offer Price of HK\$1.98 per Offer Share).

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## STRUCTURE OF THE GLOBAL OFFERING

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The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Shares available under the Hong Kong Public Offering, are expected to be announced on Thursday, 26 June 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of our Company ([www.hangfatg.com](http://www.hangfatg.com)).

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the initial public offer prices of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, CMBIS, as the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. CMBIS has been appointed as the Stabilising Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO.

Any such stabilising activity will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong on stabilisation including the Securities and Futures (Price Stabilizing) Rules made under the SFO. However, there is no obligation on CMBIS, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of CMBIS, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilising activity is required to be brought to an end within 30 days from the last day for lodging application under the Hong Kong Public Offering which is expected to be on or around Sunday, 20 July 2014. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 75,000,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Following any over-allocation of Shares in connection with the Global Offering, CMBIS, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period to cover such over-allocation by (among other methods) making purchases in the secondary market, selling Shares to liquidate a position held as a result of those purchases, exercising the Over-allotment Option in full or in part, stock borrowing or by any combination of any of the foregoing.

The possible stabilising action which may be taken by CMBIS, its affiliates or any person acting for it in connection with the Global Offering may involve (among other things) (i) purchases of Shares, (ii) establishing, hedging and liquidating positions in Shares, (iii) exercising the Over-allotment Option in whole or in part, (iv) stock borrowing and/or (v) offering or attempting to do any of (i), (ii), (iii) or (iv) above.

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## STRUCTURE OF THE GLOBAL OFFERING

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Specifically, prospective applicants for and investors in Offer Shares should note that:

- CMBIS, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which CMBIS, its affiliates or any person acting for it will maintain such a position;
- liquidation of any such long position by CMBIS, its affiliates or any person acting for it may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 27 June 2014, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on 27 June 2014.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares being offered pursuant to the Global Offering (including the additional Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment), and such listing and permission not having been revoked prior to the commencement of dealings in Shares on the Stock Exchange;
- (ii) the Offer Price having been duly agreed on or before the Price Determination Date; and

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## STRUCTURE OF THE GLOBAL OFFERING

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- (iii) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements;

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed “How to apply for Hong Kong Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to issue share certificates for the Offer Shares on 26 June 2014. Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on 27 June 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Underwriting Agreement – Grounds for termination” has not been exercised.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a WHITE or YELLOW Application Form;
- apply online via the HK eIPO White Form service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the HK eIPO White Form Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a WHITE or YELLOW Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the HK eIPO White Form service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of HK eIPO White Form service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a WHITE Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a YELLOW Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a WHITE Application Form and a prospectus during normal business hours between 9:00 a.m. from Tuesday, 17 June 2014 until 12:00 noon on Friday, 20 June 2014 from:

- (i) CMB International Capital Limited, Units 1803-4, 18/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong; or
- (ii) Ping An of China Securities (Hong Kong) Company Limited, 28/F, 169 Electric Road, North Point, Hong Kong; or
- (iii) KGI Asia Limited, 41/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong; or
- (iv) Asian Capital (Corporate Finance) Limited, Suite 1006, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong; or
- (v) BMI Securities Limited, Suites 909-916, 9/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong; or
- (vi) Bright Smart Securities International (H.K.) Limited, 10/F, Wing On House, No. 71 Des Voeux Road Central, Hong Kong; or

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (vii) China Investment Securities International Brokerage Limited, 63/F Bank of China Tower, 1 Garden Road, Central, Hong Kong; or
- (viii) Qilu International Securities Limited, 7th Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong; or
- (ix) any of the branches of the following receiving banks:

**Bank of Communications Co., Ltd. Hong Kong Branch**

	<b>Branch name</b>	<b>Branch address</b>
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Quarry Bay Sub-Branch	G/F., 981C King's Road, Quarry Bay
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
	Lam Tin Sub-Branch	Shop No.5 & 9, G/F., Kai Tin Tower, 63-65 Kai Tin Road, Lam Tin
	Hunghom Sub-Branch	Flat/Rm A6, G/F., Wing Kwai Building, 1-3 Tak Man Street, Whampoa Estate
New Territories	Tseung Kwan O Sub-Branch	Shop 253-255, Metro City Shopping Arcade, Phase I, Tseung Kwan O
	Fanling Sub-Branch	Shop No.84A-84B, G/F., Flora Plaza, Fanling
	Market Street Sub-Branch	G/F., 53 Market Street, Tsuen Wan

**Standard Chartered Bank (Hong Kong) Limited**

Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
	Hennessy Road Branch	399 Hennessy Road, Wanchai
Kowloon	68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui
	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong, Kowloon
	Lok Fu Shopping Centre Branch	Shop G201, G/F., Lok Fu Shopping Centre
	Mei Foo Stage I Branch	G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
New Territories	Yuen Long Fung Nin Road Branch	Shop B at G/F and 1/F, Man Cheong Building, 239-247&247A Castle Peak Road, Yuen Long
	Maritime Square Branch	Shop 308E, Level 3, Maritime Square, Tsing Yi

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You can collect a YELLOW Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 17 June 2014 until 12:00 noon on Friday, 20 June 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

### **Time for Lodging Application Forms**

Your completed WHITE or YELLOW Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. - Hang Fat Ginseng Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, 17 June 2014 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 18 June 2014 – 9:00 a.m. to 5:00 p.m.
- Thursday, 19 June 2014 – 9:00 a.m. to 5:00 p.m.
- Friday, 20 June 2014 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 20 June 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

#### **4. TERMS AND CONDITIONS OF AN APPLICATION**

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the HK eIPO White Form service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Cap. 32 Companies (WUMP) Ordinance, the Cap. 622 Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC or to the HK eIPO White Form Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the Yellow Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in "Who can apply" section, may apply through the HK eIPO White Form service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the HK eIPO White Form service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the HK eIPO White Form Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the HK eIPO White Form service.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### **Time for Submitting Applications under the HK eIPO White Form**

You may submit your application to the HK eIPO White Form Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m., Tuesday, 17 June 2014 until 11:30 a.m., Friday, 20 June 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, Friday, 20 June 2014 or such later time under the “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

### **No Multiple Applications**

If you apply by means of HK eIPO White Form, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the HK eIPO White Form service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under HK eIPO White Form more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the HK eIPO White Form service or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Cap. 32 Companies (WUMP) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Cap. 32 Companies (WUMP) Ordinance (as applied by Section 342E of the Cap. 32 Companies (WUMP) Ordinance).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited Customer Service Center  
2nd Floor, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a WHITE Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the WHITE Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Cap. 32 Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Cap. 32 Companies (WUMP) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### **Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the WHITE Application Form and in this prospectus.

### **Minimum Purchase Amount and Permitted Numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### **Time for Inputting Electronic Application Instructions**

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Tuesday, 17 June 2014 – 9:00 a.m. to 8:30 p.m. <sup>(1)</sup>.
- Wednesday, 18 June 2014 – 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>.
- Thursday, 19 June 2014 – 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>.
- Friday, 20 June 2014 – 8:00 a.m. <sup>(1)</sup> to 12:00 noon

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m., Tuesday, 17 June 2014 until 12:00 noon, Friday, 20 June 2014 (24 hours daily, except on the last application day).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The latest time for inputting your electronic application instructions will be 12:00 noon, Friday, 20 June 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

### **No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Cap. 32 Companies (WUMP) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Cap. 32 Companies (WUMP) Ordinance (as applied by Section 342E of the Cap. 32 Companies (WUMP) Ordinance).

### **Personal Data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving banks, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## **7. WARNING FOR ELECTRONIC APPLICATIONS**

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the HK eIPO White Form service is also only a facility provided by the HK eIPO White Form Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the HK eIPO White Form service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/ CCASS Internet System for submission of electronic application instructions, they should either (i) submit a WHITE or YELLOW Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Friday, 20 June 2014.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC or through HK eIPO White Form service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The WHITE and YELLOW Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You may submit an application using a WHITE or YELLOW Application Form or through the HK eIPO White Form service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering – Pricing of the Global Offering”.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 20 June 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 20 June 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 26 June 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on our Company’s website at [www.hangfatg.com](http://www.hangfatg.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.hangfatg.com](http://www.hangfatg.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Thursday, 26 June 2014;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m., on Thursday, 26 June 2014 to 12:00 midnight on Wednesday, 2 July 2014;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 26 June 2014 to Wednesday, 2 July 2014 (excluding Saturday, Sunday and Public Holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 26 June 2014 to Monday, 30 June 2014 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to HK eIPO White Form Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Cap. 32 Companies (WUMP) Ordinance (as applied by Section 342E of the Cap. 32 Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Sole Global Coordinator, the HK eIPO White Form Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the HK eIPO White Form service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.98 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 26 June 2014.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on YELLOW Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by WHITE or YELLOW Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for YELLOW Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 26 June 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 27 June 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 26 June 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 26 June 2014, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 26 June 2014, by ordinary post and at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you apply by using a YELLOW Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 26 June 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 26 June 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

***(iii) If you apply through the HK eIPO White Form service***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 26 June 2014, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 26 June 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(iv) *If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 26 June 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, 26 June 2014. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 26 June 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 26 June 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 26 June 2014.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The followings is the text of a report prepared for the purpose of incorporation in the prospectus received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.



德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

17 June 2014

### The Directors

Hang Fat Ginseng Holdings Company Limited

CMB International Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Hang Fat Ginseng Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2013 (the “Track Record Period”) for inclusion in the prospectus of the Company dated 17 June 2014 (the “Prospectus”) in connection with 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 was incorporated and registered as an exempted company under the Companies Law of the Cayman Islands on 18 August 2011. Through a group reorganisation as more fully explained in the paragraph headed “Reorganisation” under the section headed “History and Reorganisation” to the Prospectus (the “group restructuring”), the Company has since 23 May 2014 become the holding company of the Group.

Particulars of the subsidiaries indirectly held by the Company, unless otherwise specified, at the end of each reporting period and the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at				Principal activities
			31 December			At the date of	
			2011	2012	2013	report	
			%	%	%	%	
Hang Fat Ginseng Hong Limited (“HF Hong”)	Hong Kong 28 April 1989	Ordinary capital HK\$5,000,000	100	100	100	100	Sourcing, wholesaling and retailing of American Ginseng and Other Product

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at				Principal activities
			31 December			At the date of report	
			2011	2012	2013		
			%	%	%	%	
Hang Fat Ginseng Importer Limited ("HF Ginseng Importer")	Hong Kong 11 April 2011	Ordinary capital HK\$10,000	100	100	100	100	Retailing and wholesaling of American Ginseng and Other Product
Hang Fat Importer Limited ("HF Importer")	Hong Kong 23 November 2012	Ordinary capital HK\$10,000	-	100	100	100	Retailing and wholesaling of American Ginseng and Other Product
Flying Century Limited ("Flying Century")	Hong Kong 8 August 2003	Ordinary capital HK\$10	100	100	100	100	Property and other assets holding
Fortune Gaining Limited ("Fortune Gaining")	Hong Kong 17 March 2009	Ordinary capital HK\$10,000	100	100	100	100	Property holding and leasing
Billion Victor Enterprises Limited ("Billion Victor")#	Hong Kong 26 February 2009	Ordinary capital HK\$10,000	100	-	-	-	Property holding
Metro Victor Limited ("Metro Victor")+	Hong Kong 4 August 2009	Ordinary capital HK\$10,000	100	-	-	-	Property holding
Hang Fat Holdings Limited ("HF Holdings")	Hong Kong 17 May 2010	Ordinary capital HK\$10,000	100	100	100	100	Administration of the Group
Long Xi Group Company Limited ("Long Xi")	Hong Kong 12 May 2010	Ordinary capital HK\$10,000	100	100	100	100	Processing and sale of ginseng related product
Sparkling Square Holdings Company Limited ("Sparkling Square")	British Virgin Islands ("BVI") 21 March 2011	Ordinary capital US\$100	100	100	100	100	Investment holding
Union Field Assets Limited ("Union Field")	BVI 21 March 2011	Ordinary capital US\$100	100	100	100	100	Investment holding
東莞南城恒發洋參有限公司 ("Dongguan Hang Fat")□	People's Republic of China 12 July 2011	Registered capital HK\$3,000,000	100	-	-	-	Inactive
江西恒發洋參有限公司 ("Jiangxi HF")▲	People's Republic of China 5 August 2011	Registered capital HK\$3,000,000	100	-	-	-	Inactive
Elegant Ocean Limited ("Elegant Ocean")	BVI 3 January 2013	Ordinary capital US\$100	-	-	100	100	Investment holding
Wealthy Harvest Enterprise Limited ("Wealthy Harvest")	BVI 11 January 2013	Ordinary capital US\$100	-	-	100	100	Investment holding

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at				Principal activities
			31 December			At the date of report	
			2011	2012	2013		
			%	%	%	%	
Billion Wealth Overseas Limited ("Billion Wealth")	BVI 20 March 2013	Ordinary capital US\$100	-	-	100	100	Investment holding
Hang Fat Ginseng Company Limited ("HF Ginseng")	Hong Kong 8 May 2013	Ordinary capital HK\$10,000	-	-	100	100	Trading of ginseng and dried foods
Hang Fat Ginseng (Retail) Limited ("HF Ginseng Retail")	Hong Kong 8 May 2013	Ordinary capital HK\$10,000	-	-	100	100	Trading of ginseng and dried foods
Hang Fat Ginseng Trading Company Limited ("HF Ginseng Trading")	Hong Kong 8 May 2013	Ordinary capital HK\$10,000	-	-	100	100	Trading of ginseng and dried foods
Greatest Maker Limited ("Greatest Maker")	Hong Kong 23 May 2013	Ordinary capital HK\$1	-	-	100	100	Investment holding
Hang Fat Ginseng Importer (2013) Limited ("Hang Fat (2013)")	Hong Kong 24 May 2013	Ordinary capital HK\$10,000	-	-	100	100	Trading of ginseng and dried foods
Hang Fat Group Holdings Limited ("Hang Fat Group Holdings")*	BVI 18 June 2013	Ordinary capital US\$100	-	-	100	100	Investment holding
Greatest Summit Limited ("Greatest Summit")	Hong Kong 29 September 2013	Ordinary capital HK\$1	-	-	100	100	Investment holding

# Billion Victor was incorporated on 26 February 2009 and disposed by the Group during the year ended 31 December 2012.

+ Metro Victor was incorporated on 4 August 2009 and disposed by the Group during the year ended 31 December 2012.

□ Dongguan Hang Fat is a limited liability company being established on 12 July 2011 and was disposed by the Group during the year ended 31 December 2012.

▲ Jiangxi HF is a limited liability company being established on 5 August 2011 and was deregistered by the Group during the year ended 31 December 2012.

\* Directly held by the Company.

All companies now comprising the Group have adopted 31 December as their financial year end date. Prior to the financial year ended 31 December 2012, the Company's subsidiaries in Hong Kong adopted 31 March as its financial year end date. These subsidiaries have changed their financial year end date to conform with that of the Group.

The statutory financial statements of the following subsidiaries for the Track Record Period, or since their respective dates of incorporation/establishment, where this is a shorter period were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the Hong Kong Companies Ordinance except for the statutory financial statements of Dongguan Hang Fat which were prepared in accordance with relevant accounting principles and the financial reporting framework applicable to the PRC enterprises. They were audited by the following certified public accountants registered in Hong Kong or PRC.

<b>Name of subsidiary</b>	<b>Financial period</b>	<b>Name of auditors</b>
HF Ginseng Importer	From 11 April 2011 (date of incorporation) to 31 March 2012 For the period from 1 April 2012 to 31 December 2012	Albert Y.K. Lau & Company Albert Y.K. Lau & Company
HF Hong	Year ended 31 March 2011 Year ended 31 March 2012 For the period from 1 April 2012 to 31 December 2012	Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu
Flying Century	Year ended 31 March 2011 Year ended 31 March 2012 For the period from 1 April 2012 to 31 December 2012	Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu
Fortune Gaining	Year ended 31 March 2011 Year ended 31 March 2012 For the period from 1 April 2012 to 31 December 2012	Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu
Dongguan Hang Fat	From 12 July 2011 (date of establishment) to 31 December 2011	東莞市金慧會計師事務所
HF Holdings	From 17 May 2010 (date of incorporation) to 31 March 2011 Year ended 31 March 2012 For the period from 1 April 2012 to 31 December 2012	Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu
Long Xi	From 12 May 2010 (date of incorporation) to 31 March 2011 Year ended 31 March 2012 For the period from 1 April 2012 to 31 December 2012	Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu
Metro Victor	Year ended 31 March 2011 Year ended 31 March 2012	Deloitte Touche Tohmatsu Albert Y.K. Lau & Company
Billion Victor	Year ended 31 March 2011 Year ended 31 March 2012	Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu

We have acted as the auditor of the Company since its date of incorporation. No audited financial statements have been prepared for the Company as it was incorporated in the Cayman Islands, where there are no statutory audit requirements.

No audited financial statements have been prepared for those subsidiaries which were incorporated in the BVI as they were incorporated in a jurisdiction where there are no statutory audit requirements.

No audited financial statements have been prepared for HF Importer as its first set of statutory financial statements are not yet due.

No audited financial statements have been prepared for Jiangxi HF before its deregistration on 8 May 2012.

No audited financial statements for the financial year ended 31 December 2013 have been prepared for those subsidiaries incorporated in Hong Kong because the statutory reporting deadline is not yet due up to the date of this report.

For the purpose of this report, we have reviewed all the relevant transactions of these companies since their respective date of incorporation/establishment and carried out such procedures as we considered necessary in preparing our report for inclusion in the Prospectus.

For the purpose of this report, the directors of Hang Fat Group Holdings have prepared the consolidated financial statements of Hang Fat Group Holdings and its subsidiaries for the Track Record Period in accordance with HKFRSs issued by the HKICPA (the "Hang Fat Group Underlying Financial Statements"), together with the management accounts of the Company for the period from date of incorporation to 31 December 2013 (collectively referred to the "Underlying Financial Statements"). We have undertaken an independent audit on the Hang Fat Group Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements for the Track Record Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" as recommended by the HKICPA.

The Financial Information for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 to the Financial Information, after making necessary adjustments as considered appropriate for the purpose of preparing this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 to Section (A) below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2011, 2012 and 2013 and of the Company as at 31 December 2011, 2012 and 2013 and of the combined profit and cash flows of the Group for the Track Record Period.

**(A) FINANCIAL INFORMATION****COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	<i>NOTES</i>	<b>Year ended 31 December</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	7	446,380	492,276	762,970
Costs of sales		<u>(358,224)</u>	<u>(411,880)</u>	<u>(583,546)</u>
Gross profit		88,156	80,396	179,424
Other income	8	2,902	2,161	1,926
Other gains and losses	8	2,667	15,564	7,071
Administrative expenses		(25,749)	(19,123)	(23,616)
Listing expenses		(3,442)	(6,340)	(867)
Other expenses		–	(8,150)	–
Changes in fair value of investment properties	16	10,600	12,030	–
Finance costs	9	<u>(17,080)</u>	<u>(15,768)</u>	<u>(10,999)</u>
Profit before taxation	10	58,054	60,770	152,939
Income tax expense	12	<u>(13,645)</u>	<u>(28,428)</u>	<u>(24,326)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>44,409</u>	<u>32,342</u>	<u>128,613</u>

(A) FINANCIAL INFORMATION – *continued*

## COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December		
		2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Non-current assets				
Property, plant and equipment	15	41,442	15,665	14,317
Investment properties	16	312,600	87,000	87,000
Deposits paid for acquisition of property, plant and equipment		–	–	3,567
		<u>354,042</u>	<u>102,665</u>	<u>104,884</u>
Current assets				
Inventories	18	132,419	324,822	563,718
Trade and other receivables	19	135,180	79,572	86,942
Derivative financial instruments	20	182	–	–
Amount due from a director	21	174,488	173,404	197,187
Pledged bank deposits	22	40,593	16,162	12,758
Bank balances and cash	22	17,756	14,245	47,368
		<u>500,618</u>	<u>608,205</u>	<u>907,973</u>
Current liabilities				
Trade and other payables	23	102,771	200,048	362,556
Provision on tax penalty	12	–	8,150	–
Obligations under finance leases	24	818	1,585	1,331
Derivative financial instruments	20	6	–	–
Bank borrowings	25	517,901	342,822	361,717
Taxation payable		22,511	31,141	33,703
		<u>644,007</u>	<u>583,746</u>	<u>759,307</u>
Net current (liabilities) assets		<u>(143,389)</u>	<u>24,459</u>	<u>148,666</u>
Total assets less current liabilities		<u>210,653</u>	<u>127,124</u>	<u>253,550</u>



(A) FINANCIAL INFORMATION – *continued*COMBINED STATEMENTS OF FINANCIAL POSITION – *continued*

	NOTES	As at 31 December		
		2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Non-current liabilities				
Obligations under finance leases	24	2,195	4,286	2,770
Deferred tax liabilities	17	<u>19,416</u>	<u>9,252</u>	<u>8,580</u>
		<u>21,611</u>	<u>13,538</u>	<u>11,350</u>
Net assets		<u>189,042</u>	<u>113,586</u>	<u>242,200</u>
Capital and reserves				
Share capital	26	1	1	1
Reserves		<u>189,041</u>	<u>113,585</u>	<u>242,199</u>
Total equity		<u>189,042</u>	<u>113,586</u>	<u>242,200</u>

(A) FINANCIAL INFORMATION – *continued*

## COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Attributable to owners of the Company <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011	5,010	-	218,122	223,132	3	223,135
Profit and total comprehensive income for the year	-	-	44,409	44,409	-	44,409
Issue of shares	1	-	-	1	-	1
Arising from the group restructuring	(5,010)	5,010	-	-	-	-
Disposal of a subsidiary	-	-	-	-	(3)	(3)
Interim dividend paid ( <i>note 13</i> )	-	-	(78,500)	(78,500)	-	(78,500)
At 31 December 2011	1	5,010	184,031	189,042	-	189,042
Profit and total comprehensive income for the year	-	-	32,342	32,342	-	32,342
Deemed capital contribution from a shareholder ( <i>note</i> )	-	3,551	-	3,551	-	3,551
Interim dividend paid ( <i>note 13</i> )	-	-	(111,349)	(111,349)	-	(111,349)
At 31 December 2012	1	8,561	105,024	113,586	-	113,586
Profit and total comprehensive income for the year	-	-	128,613	128,613	-	128,613
Issue of shares	1	-	-	1	-	1
Arising from the group restructuring	(1)	1	-	-	-	-
As at 31 December 2013	<u>1</u>	<u>8,562</u>	<u>233,637</u>	<u>242,200</u>	<u>-</u>	<u>242,200</u>

*Note:* The amount represents deemed capital contribution from a shareholder in respect of the disposal of Billion Victor during the year ended 31 December 2012. Please refer to note 27(ii) for details.

(A) FINANCIAL INFORMATION – *continued*

## COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Operating activities			
Profit before taxation	58,054	60,770	152,939
Adjustments for:			
Depreciation of property, plant and equipment	3,951	2,584	1,999
Interest expense	17,080	15,768	10,999
Changes in fair value of derivative financial instruments	(176)	–	–
Changes in fair value of investment properties	(10,600)	(12,030)	–
Gain on disposal of property, plant and equipment	(1,093)	–	(243)
Gain on disposal of subsidiaries	(2)	(16,096)	–
Interest income	(8)	(149)	(6)
Exchange difference	(2,231)	1,414	(1,012)
Operating cash flows before movements in working capital	64,975	52,261	164,676
Decrease (increase) in inventories	144,016	(192,403)	(238,896)
(Increase) decrease in trade and other receivables	(22,976)	53,638	(9,844)
Change in derivative financial instruments	31	176	–
Increase in trade and other payables	615	98,593	154,581
Increase in provision on tax penalty	–	8,150	–
Net cash from operations	186,661	20,415	70,517
Hong Kong Profits Tax paid	(11,385)	(15,629)	(22,436)
Net cash from operating activities	175,276	4,786	48,081

(A) FINANCIAL INFORMATION – *continued*COMBINED STATEMENTS OF CASH FLOWS – *continued*

	NOTE	Year ended 31 December		
		2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Investing activities				
Interest received		8	149	6
Purchase of property, plant and equipment		(5,827)	(157)	(1,287)
Purchase of an investment property		–	(1,920)	–
Deposits paid on acquisition of property, plant and equipment		–	–	(3,567)
Withdrawal of pledged bank deposits		9,233	24,572	7,327
Placement of pledged bank deposits		(38,334)	(141)	(3,923)
Proceeds from disposal of property, plant and equipment		2,430	–	327
Proceeds from disposal of an investment property		–	2,550	–
Net cash (outflow) inflow from disposal of subsidiaries	27	(14)	47,309	–
Repayment from a director		149,113	137,082	87,569
Advance to a director		(308,297)	(211,855)	(111,352)
Repayment from related companies		37,067	157,158	–
Advance to related companies		–	(72,623)	–
Settlement of consideration receivable in respect of disposal of a subsidiary		–	–	3,000
Repayment from a bulk exporter		–	5,032	–
Net cash (used in) from investing activities		<u>(154,621)</u>	<u>87,156</u>	<u>(21,900)</u>
Financing activities				
Interest paid		(17,080)	(15,768)	(10,999)
Issue of shares		1	–	1
New bank loans raised		508,898	771,564	726,050
Repayments of bank loans		(514,230)	(836,315)	(712,903)
Repayments of obligations under finance leases		(950)	(1,495)	(1,218)
Increase (decrease) in bank overdrafts		<u>17,135</u>	<u>(13,911)</u>	<u>5,934</u>
Net cash (used in) from financing activities		<u>(6,226)</u>	<u>(95,925)</u>	<u>6,865</u>
Net increase (decrease) in cash and cash equivalents		14,429	(3,983)	33,046
Effect of exchange rate changes		423	472	77
Cash and cash equivalents at beginning of the year		<u>2,904</u>	<u>17,756</u>	<u>14,245</u>
Cash and cash equivalents at end of the year, represented by bank balances and cash		<u><u>17,756</u></u>	<u><u>14,245</u></u>	<u><u>47,368</u></u>

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION****1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 August 2011. The Company's immediate and ultimate holding company is Cervera Holdings Limited, a company incorporated in the BVI. 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 sale of ginseng and dried foods.

The Financial Information is presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

Historically, the subsidiaries of the Company were legally and/or beneficially owned by a group of individuals including Mr. Yeung Wing Yan, Mr. Yeung Wing Kong and Ms. Fu Fung Sau (the "Common Shareholders"). In preparation for the listing of the Company's shares on the Stock Exchange (the "Listing") and streamline the shareholding in the group entities, the companies comprising the Group underwent the restructuring which principally involved the following steps:

- (a) On 21 March 2011, Sparkling Square and Union Field were incorporated in the BVI by Common Shareholders. Sparkling Square and Union Field were incorporated for the purpose of acting as the intermediate companies of the Group.
- (b) HF Hong, HF Holdings and Flying Century were owned by the Common Shareholders. On 18 August 2011, the Common Shareholders transferred their equity interests in shares of HF Hong, HF Holdings and Flying Century to Sparkling Square in consideration of allotment and issue of shares by Sparkling Square to each of the Common Shareholders. HF Hong, HF Holdings and Flying Century have then become wholly-owned subsidiaries of Sparkling Square.
- (c) HF Ginseng Importer and Long Xi were owned and controlled by the Common Shareholders and HF Hong respectively. On 18 August 2011, the Common Shareholders and HF Hong transferred their equity interests in shares of HF Ginseng Importer and Long Xi respectively to Union Field in consideration of allotment and issue of shares by Union Field, as directed by HF Hong to each of the Common Shareholders. HF Ginseng Importer and Long Xi have then become wholly-owned subsidiaries of Union Field.
- (d) Heng Xhin Group Company Limited ("Heng Xhin") was 51% owned and controlled by HF Hong. On 31 March 2011, HF Hong transferred its shares in Heng Xhin to a non-controlling shareholder of Heng Xhin. Upon the completion of this transaction, Heng Xhin is no longer the subsidiary of the Group.
- (e) Billion Victor was owned and controlled by HF Hong. On 22 February 2012, HF Hong transferred its 10,000 ordinary shares of Billion Victor to one of the Common Shareholders at an aggregate consideration of HK\$17,000,000. Upon completion of the above transfer, Billion Victor is no longer a subsidiary of the Group.
- (f) Metro Victor was owned and controlled by HF Hong. On 2 April 2012, HF Hong transferred its 10,000 ordinary shares of Metro Victor to Great Well Properties Limited, a company which was held as to approximately 30% by one of the Common Shareholders and as to approximately 70% by two independent third parties at a consideration of HK\$50,000,000. Upon completion of the above transfer, Metro Victor is no longer a subsidiary of the Group.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION – continued**

(g) On 12 July 2011, Dongguan Hang Fat was established in the People's Republic of China and its registered capital was fully paid up and owned by HF Holdings. On 11 November 2012, pursuant to an equity transfer agreement, HF Holdings agreed to transfer all its equity interest in Dongguan Hang Fat to an independent third party at a consideration of HK\$3 million. The application for equity transfer of Dongguan Hang Fat was approved by the relevant government authority on 23 November 2012 and the relevant certificate of approval was obtained on 26 November 2012. Upon completion of the above equity transfer, Dongguan Hang Fat is no longer a subsidiary of the Group.

(h) On 3 January 2013, Elegant Ocean was incorporated in the BVI by Common Shareholders. Elegant Ocean was incorporated for the purpose of acting as the intermediate company of the Group.

On 11 January 2013, Wealthy Harvest was incorporated in the BVI by Common Shareholders. Wealthy Harvest was incorporated for the purpose of acting as the intermediate company of the Group.

On 20 March 2013, Billion Wealth was incorporated in the BVI by Common Shareholders. Billion Wealth was incorporated for the purpose of acting as the intermediate company of the Group.

On 18 June 2013, Hang Fat Group Holdings was incorporated in the BVI by the Common Shareholders. Hang Fat Group Holdings was incorporated for the purpose of acting as intermediate company of the Group.

On 20 December 2013, the Common Shareholders transferred their equity interests in shares of Sparkling Square, Union Field, Elegant Ocean, Billion Wealth and Wealthy Harvest to Hang Fat Group Holdings in consideration of US\$100 for each of the companies. Sparkling Square, Union Field, Elegant Ocean, Billion Wealth and Wealthy Harvest have then become wholly-owned subsidiaries of Hang Fat Group Holdings.

After interspersing the Company between the Common Shareholders and Hang Fat Group Holdings which completed on 23 May 2014, the Company became the holding company of the Group.

The Group resulting from the group restructuring is regarded as a continuing entity. Accordingly, the combined statements of profit or loss and other comprehensive income and cash flows for the Track Record Period 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 Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA, as if the group structure upon the completion of group restructuring has been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment where this is a shorter period. The combined statements of financial position as at 31 December 2011, 2012 and 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 those dates.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS**

For the purpose of preparing and presenting the Financial Information of the Track Record Period, the Group has adopted all HKFRSs which are effective for the Group's accounting periods beginning on 1 January 2013 consistently throughout the Track Record Period.

**New and revised HKFRSs in issue but not yet effective**

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle <sup>4</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle <sup>2</sup>
HKFRS 9	Financial instruments <sup>3</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities <sup>1</sup>
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations <sup>6</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>5</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 19	Defined benefit plans: Employee contributions <sup>2</sup>
Amendments to HKAS 32	Offsetting financial assets and financial liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets <sup>1</sup>
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting <sup>1</sup>
HK(IFRIC) – INT 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014.

<sup>3</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalized.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

<sup>5</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

<sup>6</sup> Effective for annual periods beginning on or after 2016.

**HKFRS 9 Financial instruments**

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS – continued**

All recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The directors of the Company anticipate that the adoption of these new and revised HKFRSs will have no material impact on the amounts reported in the Group’s financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared under the historical cost basis except for investment properties and derivative financial instruments which are carried at fair values, as explained in the accounting policies set out below and in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. These policies have been consistently applied throughout the Track Record Period. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.



**(A) FINANCIAL INFORMATION – *continued*****NOTES TO FINANCIAL INFORMATION – *continued*****3. SIGNIFICANT ACCOUNTING POLICIES – *continued***

The principal accounting policies are set out below.

**Basis of combination**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Changes in the Group's ownership interests in existing subsidiaries**

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**(A) FINANCIAL INFORMATION – *continued*****NOTES TO FINANCIAL INFORMATION – *continued*****3. SIGNIFICANT ACCOUNTING POLICIES – *continued*****Business combination under common control**

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control combination, where there is a shorter period, regardless of the date of the common control combination.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and titles have passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The Group's accounting policy for recognition of rental income from operating leases is described in the accounting policy for leasing below.

**Property, plant and equipment**

Property, plant and equipment including buildings and leasehold land (classified as finance lease) held for use in the production or supply of goods or services, or for administrative purpose are stated in the combined statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses at the end of the reporting period.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****3. SIGNIFICANT ACCOUNTING POLICIES – continued****Property, plant and equipment – continued**

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

**Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the combined statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**(A) FINANCIAL INFORMATION – *continued*****NOTES TO FINANCIAL INFORMATION – *continued*****3. SIGNIFICANT ACCOUNTING POLICIES – *continued*****Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

**Financial instruments**

Financial assets and financial liabilities are recognised in the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL, of which interest income is included in net gains or losses.

**(A) FINANCIAL INFORMATION – *continued*****NOTES TO FINANCIAL INFORMATION – *continued*****3. SIGNIFICANT ACCOUNTING POLICIES – *continued*****Financial instruments – *continued******Financial assets at FVTPL***

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

***Impairment of loans and receivables***

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days to 150 days, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the loans and receivables original effective interest rate.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****3. SIGNIFICANT ACCOUNTING POLICIES – continued****Financial instruments – continued*****Impairment of loans and receivables – continued***

The carrying amount of the loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liability classified as FVTPL, of which the interest expense is included in net gains or losses.

***Financial liabilities at FVTPL***

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****3. SIGNIFICANT ACCOUNTING POLICIES – continued****Financial instruments – continued****Financial liabilities at FVTPL – continued**

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

**Other financial liabilities**

The Group's financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

**Derivative financial instruments**

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

**Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment losses on tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**(A) FINANCIAL INFORMATION – *continued*****NOTES TO FINANCIAL INFORMATION – *continued*****3. SIGNIFICANT ACCOUNTING POLICIES – *continued*****Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the combined statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.



**(A) FINANCIAL INFORMATION – *continued*****NOTES TO FINANCIAL INFORMATION – *continued*****3. SIGNIFICANT ACCOUNTING POLICIES – *continued*****Taxation – *continued***

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Foreign currencies**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

***The Group as lessee***

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined statement of financial position as a finance lease obligation.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****3. SIGNIFICANT ACCOUNTING POLICIES – continued****Leasing – continued****The Group as lessee – continued**

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Borrowing costs**

All borrowing costs for non-qualifying assets are recognised in profit or loss in the period in which they are incurred.

**Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme which is defined contribution scheme are charged as an expense when employees have rendered service entitling them to the contributions.

**4. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of borrowings, net of bank deposits and cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, capital reserve and accumulated profits as disclosed in the Financial Information.

The management of the Group reviews the capital structure regularly. The management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the raising of bank loans.

**5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****5. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Fair value of investment properties**

Investment properties are carried in the combined statements of financial position at 31 December 2011, 2012 and 2013 at their fair value of HK\$312,600,000, HK\$87,000,000 and HK\$87,000,000 respectively (note 16). The fair value was based on valuation of these properties conducted by independent firms of professional valuers using direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions and locations of the subject property. Favourable or unfavourable changes to these adjustments would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the combined statements of profit or loss and other comprehensive income.

**Impairment of trade receivables**

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flows discounted at an effective interest rate. If the financial condition of the customers of the Group were deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. The carrying amounts of trade receivables are HK\$114,572,000, HK\$60,838,000 and HK\$62,184,000 as at 31 December 2011, 2012 and 2013 respectively.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 6. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

## Categories of financial instruments

## THE GROUP

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	352,441	267,649	319,497
Derivative financial instruments classified as held for trading	182	–	–
	<u>352,623</u>	<u>267,649</u>	<u>319,497</u>
Financial liabilities			
Amortised cost	(611,513)	(533,965)	(659,239)
Obligations under finance leases	(3,013)	(5,871)	(4,101)
Derivative financial instruments classified as held for trading	(6)	–	–
	<u>(614,532)</u>	<u>(539,836)</u>	<u>(663,340)</u>

## THE COMPANY

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	<u>–</u>	<u>–</u>	<u>7</u>
Financial liabilities			
Amortised cost	<u>–</u>	<u>–</u>	<u>(208)</u>

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****6. FINANCIAL INSTRUMENTS – continued****Financial risk management objectives and policies**

The Group's major financial instruments include trade and other receivables, amount due from a director, pledged bank deposits, bank balances and cash, derivative financial instruments, trade and other payables, obligations under finance leases and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Company is not exposed to significant financial risks.

**Credit risk**

The Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties failure to perform their obligations as at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statements of financial position.

The Group has a concentration of customers. For the year ended 31 December 2011, 2012 and 2013, aggregate sales to the top five customers of the Group which are engaged in ginseng secondary wholesale market accounted for approximately 76%, 64% and 66%, respectively, of the total revenue. Amount due from them as at 31 December 2011, 2012 and 2013 amounted to approximately HK\$105,389,000, HK\$43,916,000 and HK\$53,333,000, respectively, representing 92%, 72% and 86% of the Group's total trade receivables as at 31 December 2011, 2012 and 2013, respectively. Management of the Group considered that the credit risks of trade receivables are insignificant after considering the good trading relationship and the long history of business development with these customers and had no recent history of default.

In order to minimise the credit risk, the management of the Group is responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the management reviews the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on amount due from a director as at 31 December 2011, 2012 and 2013. The management considers the credit risk is not significant because there were frequent settlements from the director.

The credit risk on liquid funds is limited because the Group's bank balances are deposited with banks of high credit ratings in the Hong Kong.

**Currency risk**

Certain group entities have foreign currency sales, which expose the Group to foreign currency risk. During the years ended 31 December 2011, 2012 and 2013, approximately 92%, 66% and 77% respectively of the Group's sales respectively are denominated in currency other than the functional currency of the group entities. The group entities also have foreign currency purchases, which also expose the Group to foreign currency risk. During the years ended 31 December 2011, 2012 and 2013, approximately 95%, 81% and 86% of the Group's purchases are denominated in currencies other than the functional currency of the group entities. The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*6. FINANCIAL INSTRUMENTS – *continued*Financial risk management objectives and policies – *continued*Currency risk – *continued*

The Group mainly exposes to currency of United States dollar (“US\$”), Renminbi (“RMB”) and Canadian Dollars (“CAD”), which are arising from relevant group entities’ foreign currency, i.e. currency other than the functional currency of the entities comprising the Group, denominated monetary assets and liabilities for the Group’s operating activities.

The carrying amounts of the Group’s monetary assets and monetary liabilities denominated in foreign currencies, which are mainly trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables and bank borrowings, at the end of the reporting period are as follows:

	Assets			Liabilities		
	As at 31 December			As at 31 December		
	2011	2012	2013	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
US\$	23,216	4,019	10,102	281,047	149,875	159,563
RMB	132,463	49,761	45,807	–	–	–
CAD	<u>208</u>	<u>238</u>	<u>63</u>	<u>94,600</u>	<u>283,538</u>	<u>245,301</u>

## Sensitivity analysis

The following table details the Group’s sensitivity to a 5% appreciation and depreciation in RMB and CAD against HK\$. 5% is the sensitivity rate used and represents management’s assessment of the reasonably possible change in foreign exchange rates. Under the linked exchange rate system, the financial impact on exchange difference between HK\$ and US\$ will be immaterial and therefore sensitivity analysis in US\$ is not presented. A negative number below indicates a decrease in profit after taxation for the years ended 31 December 2011, 2012 and 2013 where the HK\$ strengthen 5% against the relevant currencies. For a 5% weakening of the HK\$ against relevant currencies, there would be an equal and opposite impact on the profit.

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
(Decrease) increase in profit after taxation for the year			
RMB	(5,530)	(2,078)	(1,912)
CAD	<u>3,941</u>	<u>11,828</u>	<u>10,239</u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*6. FINANCIAL INSTRUMENTS – *continued***Financial risk management objectives and policies** – *continued**Currency risk* – *continued**Sensitivity analysis* – *continued*

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the respective years.

*Interest rate risk*

The Group is exposed to fair value interest rate risk from its fixed rate borrowings.

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing bank balances, pledged bank deposits and bank borrowings at variable interest rates. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and bank borrowings at variable interest rates at the end of each reporting period and assumed that the amount of assets and liabilities outstanding at the end of each reporting period was outstanding for the whole year. 30 basis points increase was used and represents management's assessment of the reasonably possible change in interest rates. The management does not anticipate a decrease in interest rate in the next financial year having regard to the trends in Prime rate, London Interbank Offered Rate ("LIBOR") and Hong Kong Interbank Offered Rate ("HIBOR"). Accordingly, sensitivity analysis on a decrease in interest rates is not presented.

If interest rates on pledged bank deposits, bank balances and bank borrowings at variable interest rates had been 30 basis points higher and all other variables were held constant, the potential effect on profit after taxation for each year is as follows:

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Decrease in profit after taxation for the year	<u>1,151</u>	<u>778</u>	<u>766</u>

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Based on the good working relationship with its banks and to optimise the use of the Group's liquid funds, the Group will consider to renew the bank loans upon their maturities.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*6. FINANCIAL INSTRUMENTS – *continued*Financial risk management objectives and policies – *continued*Liquidity risk – *continued*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the bank choosing to exercise their right. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment date. The table includes both interest and principal cash flows.

In addition, the following table details the Group's liquidity analysis for its derivative financial liabilities. The table has been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial liabilities are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average effective interest rate %	On demand or less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 to 4 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
<b>As at 31 December 2011</b>							
Trade and other payables	–	59,669	33,943	–	–	93,612	93,612
Obligations under finance leases	7.33	84	251	1,006	2,070	3,411	3,013
Bank borrowings							
– fixed rate	5.25	3,296	–	–	–	3,296	3,296
– variable rate	2.91	514,605	–	–	–	514,605	514,605
		<u>577,654</u>	<u>34,194</u>	<u>1,006</u>	<u>2,070</u>	<u>614,924</u>	<u>614,526</u>
Derivative-net-settlement							
Derivative financial instruments	–	–	–	6	–	6	6
<b>As at 31 December 2012</b>							
Trade and other payables	–	81,443	108,585	1,115	–	191,143	191,143
Obligations under finance leases	6.83	169	337	1,442	4,702	6,650	5,871
Bank borrowings							
– fixed rate	5.43	7,773	–	–	–	7,773	7,773
– variable rate	3.34	335,049	–	–	–	335,049	335,049
		<u>424,434</u>	<u>108,922</u>	<u>2,557</u>	<u>4,702</u>	<u>540,615</u>	<u>539,836</u>
<b>As at 31 December 2013</b>							
Trade and other payables	–	291,871	5,651	–	–	297,522	297,522
Obligations under finance leases	6.64	131	261	1,176	2,964	4,532	4,101
Bank borrowings – variable rate	3.83	361,717	–	–	–	361,717	361,717
		<u>653,719</u>	<u>5,912</u>	<u>1,176</u>	<u>2,964</u>	<u>663,771</u>	<u>663,340</u>



**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****6. FINANCIAL INSTRUMENTS – continued****Financial risk management objectives and policies – continued****Liquidity risk – continued**

Borrowings with a repayment on demand clause are included in the “on demand or less than 1 month” time band in the above maturity analysis. The aggregate undiscounted principal amounts of the Group’s borrowings amounted to HK\$116,173,000, HK\$16,429,000 and HK\$10,946,000 as at 31 December 2011, 2012 and 2013 respectively. Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in two to five years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$133,736,000, HK\$18,351,000 and HK\$12,193,000 as at 31 December 2011, 2012 and 2013 respectively.

The amounts included above for variable rate bank borrowings are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**Fair value measurements of financial instruments**

Some of the Group’s financial assets and financial liabilities are measured at fair value at the end of each reporting period. The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The fair value of derivative financial assets of HK\$182,000 and derivative financial liabilities of HK\$6,000 represent the fair value of foreign currency forward contracts held by the Group at 31 December 2011 and are determined by discounted cash flow that future cash flow are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and forward contracted exchange rates, discounted at a rate that reflects the credit risk of various counterparties.

The valuation of all foreign currency forward contracts are classified in level 2 of the fair value hierarchy with the fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Except as detailed above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined statements of financial position approximate their fair values.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 7. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports reviewed by the chief operating decision maker, the Chairman, for the purpose of allocating resources to the segments and to assess their 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 ("U.S.") ("Wild ginseng"), and (iii) 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:

	Segment revenue			Segment results		
	Year ended 31 December			Year ended 31 December		
	2011	2012	2013	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cultivated ginseng	439,234	403,758	675,079	86,740	76,354	169,769
Wild ginseng	5,290	38,617	50,799	1,153	2,909	7,975
Others	1,856	49,901	37,092	263	1,133	1,680
	<u>446,380</u>	<u>492,276</u>	<u>762,970</u>	88,156	80,396	179,424
Changes in fair value of derivative financial instruments				(3,234)	410	–
Gain on disposal of property, plant and equipment				1,093	–	243
Gain on disposal of subsidiaries				2	16,096	–
Changes in fair value of investment properties				10,600	12,030	–
Listing expenses				(3,442)	(6,340)	(867)
Unallocated corporate income				7,708	2,161	8,754
Unallocated corporate expenses				(25,749)	(28,215)	(23,616)
Finance costs				(17,080)	(15,768)	(10,999)
Profit before taxation				<u>58,054</u>	<u>60,770</u>	<u>152,939</u>

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*7. SEGMENT INFORMATION – *continued*

Segment profit during the Track Record Period represents the profit earned by each segment without allocation of changes in fair value of derivative financial instruments, gain on disposal of property, plant and equipment, gain on disposal of subsidiaries, changes in fair value of investment properties, listing expenses, unallocated income such as interest income, exchange gain, 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 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 are 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 located in Hong Kong by physical location of assets.

**Information about major customers**

Revenues from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Customer A			
– Cultivated ginseng	123,352	75,538	N/A*
Customer B			
– Cultivated ginseng	88,978	53,945	198,721
– Others	–	21,071	–
	<u>88,978</u>	<u>75,016</u>	<u>198,721</u>
Customer C			
– Cultivated ginseng	–	66,853	99,688
– Others	–	–	269
	<u>–</u>	<u>66,853</u>	<u>99,957</u>
Customer D			
– Cultivated ginseng	66,346	N/A*	N/A*
Customer E			
– Cultivated ginseng	46,080	N/A*	N/A*
– Others	–	N/A*	N/A*
	<u>46,080</u>	<u>N/A*</u>	<u>N/A*</u>
Customer F			
– Cultivated ginseng	N/A*	30,518	N/A*
– Others	N/A*	22,012	N/A*
	<u>N/A*</u>	<u>52,530</u>	<u>N/A*</u>
Customer G			
– Cultivated ginseng	N/A*	N/A*	79,568

\* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 8. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Other income comprised the followings:			
Interest income on bank deposits	8	149	6
Rental income	1,632	1,848	1,920
Sundry income	1,262	164	–
	<u>2,902</u>	<u>2,161</u>	<u>1,926</u>

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Other gains and losses comprised the followings:			
Changes in fair value of			
derivative financial instruments	(3,234)	410	–
Gain on disposal of property, plant and equipment	1,093	–	243
Gain on disposal of subsidiaries ( <i>note 27</i> )	2	16,096	–
Exchange gain (loss), net	4,806	(942)	6,828
	<u>2,667</u>	<u>15,564</u>	<u>7,071</u>

## 9. FINANCE COSTS

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Interest on:			
Bank loans and overdrafts wholly repayable			
within five years	16,893	15,632	10,680
Finance leases wholly repayable within five years	187	136	319
	<u>17,080</u>	<u>15,768</u>	<u>10,999</u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 10. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:			
Directors' remuneration ( <i>note 11</i> )	3,477	3,540	5,015
Other staff costs	2,454	2,383	4,359
Retirement benefit scheme contributions for other staff	216	292	326
Total staff costs	<u>6,147</u>	<u>6,215</u>	<u>9,700</u>
Auditor's remuneration	1,000	1,000	1,000
Depreciation of property, plant and equipment	3,951	2,584	1,999
Operating lease rentals in respect of office premises	<u>2,049</u>	<u>2,052</u>	<u>1,608</u>
after crediting:			
Gross rental income from investment properties	1,632	1,848	1,920
Less: Direct operating expenses from investment properties during the year	<u>(573)</u>	<u>(482)</u>	<u>(402)</u>
Net rental income from investment properties	<u>1,059</u>	<u>1,366</u>	<u>1,518</u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) Directors' emoluments

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Directors' fees	–	–	–
Other emoluments			
– basic salaries and allowances	3,445	3,512	4,985
– retirement benefits scheme contributions	32	28	30
	<u>3,477</u>	<u>3,540</u>	<u>5,015</u>

Details of emoluments paid by the Group to the directors of the Company are as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Mr. Yeung Wing Yan			
– basic salaries and allowances	1,287	1,286	2,436
– retirement benefit scheme contributions	12	14	15
	<u>1,299</u>	<u>1,300</u>	<u>2,451</u>
Mr. Yeung Wing Kong			
– basic salaries and allowances	1,446	1,446	1,685
– retirement benefits scheme contributions	12	14	15
	<u>1,458</u>	<u>1,460</u>	<u>1,700</u>
Ms. Fu Fung Sau			
– basic salaries and allowances	712	780	864
– retirement benefits scheme contributions	8	–	–
	<u>720</u>	<u>780</u>	<u>864</u>
Total	<u>3,477</u>	<u>3,540</u>	<u>5,015</u>

Mr. Yeung Wing Yan is also the Chief Executive of the Company and his emolument disclosed above included those for services rendered by him as the Chief Executive.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

## (b) Employees' emoluments

Among the five individuals with the highest emoluments in the Group, three, three and three were directors of the Company for the years ended 31 December 2011, 2012 and 2013 respectively whose emoluments are included in the disclosures in (a) above. The emoluments of the remaining two individuals were as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Employees			
– basic salaries and allowances	412	638	887
– retirement benefits scheme contributions	15	19	26
	<u>427</u>	<u>657</u>	<u>913</u>

The emoluments of the employees were within the following bands:

	Number of employees		
	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Up to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>2</u>

During the Track Record Period, no emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Track Record Period.

## 12. INCOME TAX EXPENSE

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
The taxation comprises:			
Hong Kong Profits Tax:			
Current year	(11,088)	(20,787)	(26,564)
(Under)overprovision in prior years	–	(5,572)	1,566
Deferred tax ( <i>note 17</i> )			
Current year	<u>(2,557)</u>	<u>(2,069)</u>	<u>672</u>
	<u>(13,645)</u>	<u>(28,428)</u>	<u>(24,326)</u>

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

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*12. INCOME TAX EXPENSE – *continued*

The taxation for the Track Record Period is reconciled to profit before taxation per the combined statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	58,054	60,770	152,939
Tax at the applicable income tax rate (16.5%)	(9,578)	(10,028)	(25,235)
Tax effect of expenses not deductible for tax purposes ( <i>note a</i> )	(3,463)	(3,296)	(506)
Tax effect of gain arising on disposal of a subsidiary ( <i>note b</i> )	–	(8,300)	–
(Under)overprovision in respect of prior years ( <i>note c</i> )	–	(5,572)	1,566
Tax effect of tax loss not recognised	(512)	(1,338)	(267)
Others	(92)	106	116
Taxation for the year	(13,645)	(28,428)	(24,326)

*Notes:*

- (a) Expenses not deductible for tax purpose mainly include professional fees incurred in connection with proposed initial public offering on the Main Board of the Stock Exchange of Hong Kong Limited, tax penalty and non-deductible interest expenses.
- (b) Balance represents tax effect of taxable gain in relation to the excess of the consideration received from disposal of a subsidiary over the original investment cost in that subsidiary by the Group.
- (c) In March 2010, the Inland Revenue Department (“IRD”) initiated a tax audit on the Hong Kong tax affairs of a director and a subsidiary of the Group for years of assessment from 2003/04 onwards. In March 2011 and February 2012, the IRD issued additional profits tax assessments to that subsidiary relating to years of assessment 2004/05 and 2005/06 in an amount of HK\$525,000 and HK\$2,100,000 respectively. The Group lodged objections with the IRD against these additional assessments.

During the course of tax audit in 2012, the IRD advised the Group that there would be tax undercharged for that subsidiary for the years of assessment from 2003/04 to 2010/11 due to tax adjustments on (i) the subsidiary’s exchange rate adopted for purchases denominated in foreign currency for the years from 2003/04 to 2008/09 and (ii) disallowable expenses and gain/loss on foreign contracts and securities for the years of assessment from 2008/09 to 2010/11.

The Group has submitted a settlement proposal of tax adjustments to the IRD in December 2012, with a view to settle the tax assessment dispute.



**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****12. INCOME TAX EXPENSE – continued**

Accordingly, additional tax provision of HK\$4,944,000 for the years of assessment from 2003/04 to 2008/09 and HK\$628,000 for the years of assessment from 2009/10 and 2010/11 and tax penalty of HK\$8,150,000 (included in other expenses) had been made and these amounts have been charged to profit or loss for the year ended 31 December 2012.

The proposal of tax adjustments was accepted by the IRD in January 2013. In June 2013, the IRD has issued notice of final tax penalty to confirm the amount of tax penalty in relation to the tax audit for the years of assessment from 2003/04 to 2010/11.

The directors of the Company are of the opinion that the tax audit exercise has been settled with the provision of the tax undercharge and relevant penalty. Accordingly, no additional provision of Hong Kong Profits Tax and tax penalty are considered necessary in respect of the tax audit.

**13. DIVIDENDS**

No dividend has been declared or paid by the Company since its date of incorporation. HF Hong declared a dividend of HK\$78,500,000, HK\$61,349,000 and nil, during the years ended 31 December 2011, 2012 and 2013, respectively, and HF Ginseng Importer declared a dividend of nil, HK\$50,000,000 and nil during the years ended 31 December 2011, 2012 and 2013, respectively, to its shareholders.

Shareholders of HF Hong and HF Ginseng Importer authorised Mr. Yeung Wing Yan, director of the Company to receive the dividend paid by HF Hong and HF Ginseng Importer. The amounts were settled through the current account with Mr. Yeung Wing Yan in the years when the dividend were declared.

The rates of dividends and the number of shares ranking for the above dividends are not presented as such information is not meaningful having regard to the purposes of this report.

**14. EARNINGS PER SHARE**

No earnings per share information is presented, as this information, for the purpose of this report, is not considered as meaningful with regard to the group restructuring and the results for the Track Record Period that is on a combined basis as set out in note 1 to Section (A).

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Fixtures and office equipment HK\$'000	Total HK\$'000
COST					
At 1 January 2011	29,153	8,479	4,885	5,150	47,667
Additions	4,550	–	2,487	1,226	8,263
Disposals	–	–	(2,588)	–	(2,588)
At 31 December 2011	33,703	8,479	4,784	6,376	53,342
Additions	–	–	4,083	427	4,510
Disposal of subsidiaries	(23,997)	(7,810)	–	(1,705)	(33,512)
At 31 December 2012	9,706	669	8,867	5,098	24,340
Additions	–	505	741	571	1,817
Disposals	–	–	(2,401)	(2)	(2,403)
At 31 December 2013	9,706	1,174	7,207	5,667	23,754
DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	1,086	2,939	2,196	2,979	9,200
Provided for the year	700	1,562	1,011	678	3,951
Disposals	–	–	(1,251)	–	(1,251)
At 31 December 2011	1,786	4,501	1,956	3,657	11,900
Provided for the year	263	289	1,506	526	2,584
Disposal of subsidiaries	(1,188)	(4,121)	–	(500)	(5,809)
At 31 December 2012	861	669	3,462	3,683	8,675
Provided for the year	257	18	1,199	525	1,999
Disposals	–	–	(1,235)	(2)	(1,237)
At 31 December 2013	1,118	687	3,426	4,206	9,437
NET BOOK VALUES					
At 31 December 2011	<u>31,917</u>	<u>3,978</u>	<u>2,828</u>	<u>2,719</u>	<u>41,442</u>
At 31 December 2012	<u>8,845</u>	<u>–</u>	<u>5,405</u>	<u>1,415</u>	<u>15,665</u>
At 31 December 2013	<u>8,588</u>	<u>487</u>	<u>3,781</u>	<u>1,461</u>	<u>14,317</u>

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****15. PROPERTY, PLANT AND EQUIPMENT – continued**

At 31 December 2011, 2012 and 2013, the Group's buildings were situated on land in Hong Kong under medium-term leases.

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	2% or over the unexpired lease term, whichever is shorter
Leasehold improvements	20%
Motor vehicles	20%
Fixtures and office equipment	20%

The net book value of motor vehicles and office equipment at 31 December 2011, 2012 and 2013 of HK\$2,828,000, HK\$5,405,000 and HK\$3,954,000 respectively were assets held under finance leases.

**16. INVESTMENT PROPERTIES**

	<i>HK\$'000</i>
FAIR VALUE	
At 1 January 2011	302,000
Increase in fair value recognised in profit or loss	
– Unrealised gain	10,600
	<u>10,600</u>
At 31 December 2011	312,600
Increase in fair value recognised in profit or loss	
– Realised gain	630
– Unrealised gain	11,400
Additions	1,920
Disposals	(2,550)
Disposal of a subsidiary	<u>(237,000)</u>
At 31 December 2012 and 2013	<u><u>87,000</u></u>

The fair value of the Group's investment properties at 31 December 2011, 2012 and 2013 was HK\$312,600,000, HK\$87,000,000 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.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*16. INVESTMENT PROPERTIES – *continued*

The following table gives information about how the fair values of these investment properties are determined (in particular the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurement is observable.

Investment properties held by the Group in the combined statements of financial positions	Fair value HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
As at 31 December 2011					
Property 1 -property in Hong Kong	237,000	3	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions of the subject property The key inputs are: 1) Property age 2) Property size 3) Property floor level	Price per square metre, using market direct comparables and taking into account of age adjustment, size adjustment and floor level adjustment of the property	1) The older the development, the lower the fair value. 2) The larger the size, the lower the per unit fair value. 3) The higher the floor level, the higher the fair value.
Property 2 -property in Hong Kong	75,600	3	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions of the subject property The key inputs are: 1) Property size 2) Property floor level	Price per square metre, using market direct comparables and taking into account of size adjustment and floor level adjustment of the property	1) The larger the size, the lower the per unit fair value. 2) The higher the floor level, the higher the fair value.
As at 31 December 2012 and 2013					
Property 2 -property in Hong Kong	87,000	3	Direct comparison method based on market observable transactions of similar properties and adjust to reflect the conditions of the subject property The key inputs are: 1) Property size 2) Property floor level	Price per square metre, using market direct comparables and taking into account of size adjustment and floor level adjustment of the property	1) The larger the size, the lower the per unit fair value. 2) The higher the floor level, the higher the fair value.

The Group's investment properties with carrying value of HK\$312,600,000 HK\$87,000,000 and HK\$87,000,000 at 31 December 2011, 2012 and 2013 have been pledged to secure banking facilities granted to the Group.

The carrying value of investment properties shown above is situated on land in Hong Kong under medium-term leases.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 17. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movement during the Track Record Period:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Fair value changes of investment properties</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2011	683	16,176	16,859
Charge to profit or loss ( <i>note 12</i> )	808	1,749	2,557
At 31 December 2011	1,491	17,925	19,416
Charge to profit or loss ( <i>note 12</i> )	188	1,881	2,069
Disposal of a subsidiary ( <i>note 27</i> )	(530)	(11,703)	(12,233)
At 31 December 2012	1,149	8,103	9,252
Credit to profit or loss ( <i>note 12</i> )	(672)	–	(672)
At 31 December 2013	477	8,103	8,580

The Group has tax losses of HK\$6,963,000, HK\$15,078,000 and HK\$16,702,000 at 31 December 2011, 2012 and 2013, respectively, available for offset against future taxable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 18. INVENTORIES

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Cultivated ginseng	112,097	309,722	469,905
Wild ginseng	12,171	13,017	90,824
Others	8,151	2,083	2,989
	<u>132,419</u>	<u>324,822</u>	<u>563,718</u>

## 19. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Trade receivables	<u>114,572</u>	<u>60,838</u>	<u>62,184</u>
Other receivables			
Deposits paid for purchase of ginseng	13,579	12,784	21,626
Advance to a bulk exporter ( <i>note</i> )	5,032	–	–
Consideration receivable in respect of disposal of a subsidiary ( <i>note 27(iv)</i> )	–	3,000	–
Prepayments and others	<u>1,997</u>	<u>2,950</u>	<u>3,132</u>
	<u>20,608</u>	<u>18,734</u>	<u>24,758</u>
Total trade and other receivables	<u>135,180</u>	<u>79,572</u>	<u>86,942</u>

*Note:* Amount represents advance to a bulk exporter for its own business purpose. The amount is unsecured, interest free and repayable on demand. The amount has been fully settled during the year ended 31 December 2012.

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.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*19. TRADE AND OTHER RECEIVABLES – *continued*

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

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	28,297	2,919	47,533
31 to 90 days	19,723	8,952	14,310
Over 90 days	66,552	48,967	341
	<u>114,572</u>	<u>60,838</u>	<u>62,184</u>

The following is an aged analysis of trade receivables which are past due but not impaired:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Over 180 days	<u>20,071</u>	<u>46,984</u>	<u>–</u>

Included in the Group's trade receivable balance as at 31 December 2011, 2012 and 2013 are debtors with aggregate carrying amount of HK\$20,071,000, HK\$46,984,000 and nil respectively, which are past due at the reporting date for which the Group has not provided for impairment loss as these receivables are due from certain major customers of which the Group had good trading relationship and long history of business development with these customers and with no recent history of default. The Group does not hold any collateral over these balances.

The Group's management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality with satisfactory settlement history. Based on the payment pattern of the customers of the Group, trade receivables which are past due but not impaired are generally collectable. No allowance for doubtful debts are recognised by the Group for the years ended 31 December 2011, 2012 and 2013.

Included in the trade and other receivables are the following amounts denominated in currencies other than functional currencies of the relevant group companies.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
US\$	5,032	583	–
RMB	<u>107,577</u>	<u>49,761</u>	<u>42,998</u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Foreign currency forward contracts			
Current assets			
Derivative financial assets	182	–	–
Current liabilities			
Derivative financial liabilities	(6)	–	–
	<u>176</u>	<u>–</u>	<u>–</u>

## At 31 December 2011

Notional amounts	Net settlement in predetermined maturity dates of the contracts	Forward contracted rates
2 contracts to sell an aggregate of RMB20,112,000 against US\$	30 July 2012 to 16 August 2012	US\$/RMB6.410 to 6.314

The above foreign exchange contracts will be settled in the net amount on maturity date and their fair values were provided by the respective issuing banks for which the values are determined in the manner as described in note 6.

## 21. AMOUNT DUE FROM A DIRECTOR

Amount due from a director represents current account with a director:

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Mr. Yeung Wing Yan	<u>174,488</u>	<u>173,404</u>	<u>197,187</u>

Maximum amount outstanding during the year:

Name of director	Year ended 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Mr. Yeung Wing Yan	<u>174,488</u>	<u>219,714</u>	<u>220,616</u>



**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****21. AMOUNT DUE FROM A DIRECTOR – continued**

The amount is unsecured, interest-free and is without fixed repayment terms.

Other than advances to and repayment from a director, amount due from a director also included the following balances during the Track Record Period:

- (a) During the year ended 31 December 2011, Mr. Yeung Wing Yan has collected sale proceeds from certain customers on behalf of the Group in a total amount of HK\$19,012,000.
- (b) During the years ended 31 December 2011 and 2012, Mr. Yeung Wing Yan has paid expense on behalf of the Group amounting to HK\$4,277,000 and HK\$2,517,000 respectively.
- (c) During the year ended 31 December 2011, Mr. Yeung Wing Yan has repaid the obligation under a finance lease on behalf of the Group, amounting to HK\$1,675,000.
- (d) During the years ended 31 December 2011 and 2012, Mr. Yeung Wing Yan has purchased tax reserve certificates on behalf of one of the Group's subsidiaries of HK\$525,000 and HK\$2,100,000 respectively.
- (e) On 28 February 2012, the Group disposed of its entire equity interest in Billion Victor for a consideration of HK\$17,000,000 to Mr. Yeung Wing Yan. The consideration is satisfied by current account with the director.

In determining the recoverability of the amount due from a director, the Group monitors the advances and repayments since credit was granted and up to the reporting date. The management considered that the amount due from a director is recoverable. Accordingly, no allowance for bad and doubtful debt was made. The outstanding balance of amount due from a director as at 31 December 2013 will be settled prior to the listing of shares of the Company.

**22. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH**

Bank balances carry interest at prevailing market rates ranging from 0.01% to 0.25%, 0.01% to 0.25% and 0.01% to 0.1% per annum as at 31 December 2011, 2012 and 2013 respectively.

Pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged bank deposits carry at the prevailing market interest rate ranging from 0.1% to 0.25%, 0.1% to 0.25% and 0.01% to 0.1% per annum as at 31 December 2011, 2012 and 2013 respectively.

Included in pledged bank deposits and bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group companies.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$	18,184	3,436	10,012
RMB	24,886	–	2,809
CAD	208	238	63
	<u>          </u>	<u>          </u>	<u>          </u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 23. TRADE AND OTHER PAYABLES

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Trade payables	93,306	186,089	296,108
Other payables			
– Customers' deposits received	–	3,475	58,509
– Accrued expenses	9,159	5,430	6,525
– Amount due to a bulk exporter ( <i>note</i> )	–	4,734	1,094
– Others	306	320	320
	<u>93,306</u>	<u>186,089</u>	<u>296,108</u>
Total trade and other payables	<u>102,771</u>	<u>200,048</u>	<u>362,556</u>

*Note:* Amount represents purchase deposits paid by a bulk exporter on behalf of the Group to other suppliers as at 31 December 2012 and 2013. 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:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
0 – 30 days	45,834	77,860	290,319
31 to 90 days	32,903	106,642	5,786
91 to 180 days	4,152	472	–
Over 180 days	10,417	1,115	3
	<u>93,306</u>	<u>186,089</u>	<u>296,108</u>

Included in the trade and other payables are the following amounts denominated in currencies other than the functional currencies of the relevant group companies.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
USD	–	16	44,765
CAD	78,360	186,467	243,854
	<u>78,360</u>	<u>186,467</u>	<u>243,854</u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 24. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Analysed for reporting purposes as:			
Current liabilities	818	1,585	1,331
Non-current liabilities	2,195	4,286	2,770
	<u>3,013</u>	<u>5,871</u>	<u>4,101</u>

The Group has leased certain of its motor vehicles and office equipment under finance leases. The lease terms throughout the Track Record Period range from 4 to 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from nil to 10.01%, nil to 10.01% and nil to 10.01% per annum as at 31 December 2011, 2012 and 2013 respectively. These leases have purchase options upon expiring of the leases.

	Minimum lease payments As at 31 December			Present value of minimum lease payments As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Amounts payable under finance leases						
Within one year	1,341	1,948	1,568	818	1,585	1,331
In more than one year but not more than two years	930	1,895	1,558	805	1,653	1,417
In more than two years but not more than five years	1,140	2,807	1,406	1,390	2,633	1,353
	<u>3,411</u>	<u>6,650</u>	<u>4,532</u>	<u>3,013</u>	<u>5,871</u>	<u>4,101</u>
Less: future finance charges	<u>(398)</u>	<u>(779)</u>	<u>(431)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u>3,013</u>	<u>5,871</u>	<u>4,101</u>	3,013	5,871	4,101
Less: Amount due for settlement within 12 months (shown under current liabilities)				<u>(818)</u>	<u>(1,585)</u>	<u>(1,331)</u>
Amount due for settlement after 12 months				<u>2,195</u>	<u>4,286</u>	<u>2,770</u>

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 25. BANK BORROWINGS

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Bank overdrafts	17,135	3,224	9,158
Bank loans			
– Trust receipt loans	331,825	310,092	304,886
– Mortgage loans	115,643	15,144	12,845
– Other bank loans	53,298	14,362	34,828
	<u>500,766</u>	<u>339,598</u>	<u>352,559</u>
	<u>517,901</u>	<u>342,822</u>	<u>361,717</u>
Secured	<u>517,901</u>	<u>342,822</u>	<u>361,717</u>
Carrying amount repayable within one year*	401,728	326,393	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)	116,173	16,429	10,946
Less: Amounts due within one year shown under current liabilities	<u>(517,901)</u>	<u>(342,822)</u>	<u>(361,717)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>–</u>	<u>–</u>

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

Included in the above bank loans are the fixed-rate bank loans of HK\$3,296,000 and HK\$7,773,000 as at 31 December 2011 and 2012 respectively with maturity periods not exceeding 2 years from the end of reporting period.

The remaining bank loans of the Group comprised of variable-rate loans which carry interest with reference to HIBOR/LIBOR/Prime rate and the ranges of effective interests of the banks loans are as follows:

Effective interest rates	As at 31 December		
	2011	2012	2013
Fixed-rate loans	5.25%	5.43%	–
Variable-rate loans	<u>0.87% to 5.5%</u>	<u>0.99% to 23.16%</u>	<u>1.21% to 6%</u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*25. BANK BORROWINGS – *continued*

The Group has pledged buildings, investment properties and bank deposits having a carrying value of approximately HK\$387,863,000, HK\$112,007,000 and HK\$108,346,000 at 31 December 2011, 2012 and 2013, respectively to secure general banking facilities granted to the Group (note 31). The banking facilities were also supported by corporate guarantee and/or personal guarantee and/or secured by certain assets owned by certain directors of the Company.

Also, the Group has unutilised available credit facilities of HK\$110,340,000, HK\$62,984,000 and HK\$23,455,000 as at 31 December 2011, 2012 and 2013 respectively.

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

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
US\$	281,047	149,859	114,798
CAD	16,240	97,071	1,447

## 26. SHARE CAPITAL

**The Group**

The share capital of the Group at 31 December 2011 and 2012 represents the aggregate issued and paid up share capital of Sparkling Square and Union Field and issued nil-paid share capital of the Company being held by the existing equity holders of the Company.

The share capital of the Group at 31 December 2013 represents the aggregate issued and paid up share capital of Hang Fat Group Holdings and issued nil-paid share capital of the Company being held by the existing equity holders of the Company.

**The Company**

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised		
At date of incorporation and at 31 December 2011, 2012 and 2013	1,000,000	10
Issued:		
Allotted and issued nil-paid on date of incorporation and at 31 December 2011, 2012 and 2013	1,000,000	–

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*26. SHARE CAPITAL – *continued*

The Company was incorporated in Cayman Islands on 18 August 2011 as an exempted company with an authorised share capital of HK\$10,000 divided into 1,000,000 shares of HK\$0.01 each. On the date of incorporation, 800,000 shares representing 80% of the issued share capital of the Company were allotted and issued at, nil paid to, Cervera Holdings Limited, which is owned by Mr. Yeung Wing Yan, Mr. Yeung Wing Kong and Ms. Fu Fung Sau; 126,000 shares representing 12.6% of the issued share capital of the Company were allotted and issued at, nil paid to, Athena Power Limited, which is owned by Mr. Yeung Wing Yan; 60,000 shares representing 6% of the issued share capital of the Company were allotted and issued at, nil paid to, Dragon Jump Global Limited, which is owned by Mr. Yeung Wing Kong and 14,000 shares representing 1.4% of the issued share capital of the Company were allotted and issued at, nil paid to, Ace Fame Management Limited, which is owned by Ms. Fu Fung Sau. Other than the share allotment above, no other share transaction was undertaken by the Company from its incorporation to 31 December 2013.

## 27. DISPOSAL OF SUBSIDIARIES

- (i) In March 2011, HF Hong disposed of its entire 51% equity interest in Heng Xhin for a consideration of HK\$5,100 to the non-controlling shareholder of Heng Xhin. The net assets at the date of disposal are as follows:

	<i>HK\$'000</i>
Consideration received:	
Cash consideration	<u>5</u>
 Analysis of assets and liabilities over which control was lost:	
Inventories	4
Bank balances and cash	19
Trade and other payables	(6)
Amount due to a director	<u>(11)</u>
 Net assets disposed of	<u>6</u>
 Gain on disposal of a subsidiary:	
Cash consideration	5
Net asset disposed of	(6)
Non-controlling interest	<u>3</u>
 Gain on disposal	<u>2</u>
 Net cash outflow arising on disposal of a subsidiary:	
Cash consideration received	5
Less: cash and cash equivalents balances disposed of	<u>(19)</u>
	<u>(14)</u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*27. DISPOSAL OF SUBSIDIARIES – *continued*

- (ii) In February 2012, the Group disposed of its entire equity interest in Billion Victor for a consideration of HK\$17,000,000 to Mr. Yeung Wing Yan, a shareholder who is also a director of the Company. The net liabilities at the date of disposal are as follows:

	<i>HK\$'000</i>
<b>Consideration received:</b>	
Consideration satisfied by current account with a director	17,000
	<u>17,000</u>
<b>Analysis of assets and liabilities over which control was lost:</b>	
Property, plant and equipment	25,358
Bank balances and cash	40
Bank borrowings	(7,114)
Amount due to a director	(904)
Amount due to immediate holding company ( <i>note i</i> )	(22,622)
	<u>(22,622)</u>
Net liabilities discharged of	(5,242)
	<u>(5,242)</u>
<b>Gain on disposal of a subsidiary:</b>	
Consideration satisfied by current account with a director	17,000
Net liabilities discharged of	5,242
	<u>22,242</u>
Gain on disposal	22,242
	<u>22,242</u>
<b>Representing:</b>	
Gain on disposal recognised in profit or loss	18,691
Deemed capital contribution by a shareholder of the Company ( <i>note ii</i> )	3,551
	<u>22,242</u>
	<u>22,242</u>
<b>Net cash outflow on disposal of a subsidiary:</b>	
Cash and cash equivalent balances disposal of	(40)
	<u>(40)</u>
	<u>(40)</u>

*Notes:*

- i) The corresponding amount due from Billion Victor of HK\$22,622,000 which is classified as amount due from a related company immediately after the disposal has also been satisfied by current account with a director.
- ii) The deemed contribution by a shareholder of HK\$3,551,000 represented the excess of the consideration receivable over the fair value of Billion Victor at the date of disposal, which is estimated by taking into the fair value of Billion Victor's leasehold land and building located in Hong Kong.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*27. DISPOSAL OF SUBSIDIARIES – *continued*

- (iii) In April 2012, the Group disposed of its entire equity interest in Metro Victor for a consideration of HK\$50,000,000 to a related company in which Mr. Yeung Wing Yan, a shareholder who is also a director of the Company has 30% equity interest in that company. The net assets at the date of disposal are as follows:

	<i>HK\$'000</i>
<b>Consideration received:</b>	
Cash consideration	50,000
	<u>50,000</u>
<b>Analysis of assets and liabilities over which control was lost:</b>	
Property, plant and equipment	2,331
Investment property	237,000
Trade and other receivables	20
Amount due from a director	417
Bank balances and cash	60
Mortgage loans	(90,070)
Deferred tax liabilities	(12,233)
Amount due to immediate holding company ( <i>note</i> )	(84,535)
	<u>(84,535)</u>
Net assets disposed of	52,990
	<u>52,990</u>
<b>Loss on disposal of a subsidiary:</b>	
Cash consideration	50,000
Net assets disposal of	(52,990)
	<u>(52,990)</u>
Loss on disposal	(2,990)
	<u>(2,990)</u>
<b>Net cash inflow arising on disposal of a subsidiary:</b>	
Cash consideration received	50,000
Less: cash and cash equivalents balances disposed of	(60)
	<u>(60)</u>
	49,940
	<u>49,940</u>

*Note:* The corresponding amount due from Metro Victor of HK\$84,535,000 which is classified as amount due from a related company immediately after the disposal has been fully settled during the year ended 31 December 2012.



(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*27. DISPOSAL OF SUBSIDIARIES – *continued*

- (iv) In November 2012, the Group disposed of its entire equity interest in Dongguan Hang Fat for a consideration of HK\$3,000,000 to an individual third party, Wong Hoi Yan Katie. The net assets at the date of disposal are as follows:

	<i>HK\$'000</i>
<b>Consideration received:</b>	
Cash consideration	3,000
	<u>3,000</u>
<b>Analysis of assets and liabilities over which control was lost:</b>	
Property, plant and equipment	14
Bank balances and cash	2,591
	<u>2,605</u>
Net assets disposed of	<u>2,605</u>
<b>Gain on disposal of a subsidiary:</b>	
Cash consideration settled in 2013	3,000
Net assets disposal of	(2,605)
	<u>395</u>
Gain on disposal	<u>395</u>
<b>Net cash outflow arising on disposal of a subsidiary:</b>	
Cash and cash equivalents balances disposed of	(2,591)
	<u>(2,591)</u>

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 28. OPERATING LEASE COMMITMENTS

**The Group as lessee**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
<b>Office premises</b>			
Within one year	1,499	1,593	983
In the second to fifth years inclusive	<u>1,212</u>	<u>242</u>	<u>657</u>
	<u><u>2,711</u></u>	<u><u>1,835</u></u>	<u><u>1,640</u></u>
<b>Office equipment</b>			
Within one year	–	19	11
In the second to fifth years inclusive	<u>–</u>	<u>31</u>	<u>34</u>
	<u><u>–</u></u>	<u><u>50</u></u>	<u><u>45</u></u>

Operating lease payments represent rentals payable by the Group for the office premises and office equipment. Leases are negotiated for an average term of three years and rentals are fixed.

**The Group as lessor**

At the end of the reporting period, the Group had contracted with tenants for the following minimum lease payments:

	As at 31 December		
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000
Within one year	408	1,920	1,920
In the second to fifth years inclusive	<u>–</u>	<u>2,400</u>	<u>2,400</u>
	<u><u>408</u></u>	<u><u>4,320</u></u>	<u><u>4,320</u></u>

Operating lease income represents rental income receivable by the Group for the investment properties. Lease is negotiated for an average term of two years and rentals are fixed.

(A) FINANCIAL INFORMATION – *continued*NOTES TO FINANCIAL INFORMATION – *continued*

## 29. CAPITAL COMMITMENTS

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the Financial Information in respect of the acquisition of property, plant and equipment	–	–	16,211

## 30. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK\$1,000 per month prior to June 2012 and revised to HK\$1,250 per month for each employee afterward.

## 31. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure the banking facilities granted to the Group.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Investment properties	312,600	87,000	87,000
Property, plant and equipment	34,670	8,845	8,588
Pledged bank deposits	40,593	16,162	12,758

## 32. RELATED PARTY TRANSACTIONS

- (i) In addition to the transactions and balances disclosed in notes 21 and 27, the Group had entered into the following transactions with Mr. Yeung Wing Yan, a shareholder who is also a director of the Company:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Purchase of property, plant and equipment	4,000	–	–
Rental expense	135	105	–
Sales of goods	21	–	–

- (ii) The remuneration of directors who are considered as members of key management during the Track Record Period is disclosed in note 11.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****32. RELATED PARTY TRANSACTIONS – continued**

- (iii) Save as disclosed in notes 25 and 31, the banking facilities of HK\$628,241,000, HK\$405,806,000 and HK\$385,172,000 of the Group were supported by personal guarantee provided by Mr. Yeung Wing Yan and Mr. Yeung Wing Kong and/or secured by certain assets owned by these two directors for the years ended 31 December 2011, 2012 and 2013. The arrangement will be ceased upon Listing as the relevant banks have given consent in principle to release all such personal guarantees and securities by certain assets owned by certain directors of the Company upon Listing.
- (iv) During the year ended 31 December 2011, an amount of HK\$37,067,000 was repaid by the related companies which were directly controlled by directors of the Company.

**33. MAJOR NON-CASH TRANSACTIONS**

- (a) During the year 31 December 2011, certain Group's settlement from customers were received by Mr. Yeung Wing Yan, a shareholder who is also a director of the Company on behalf of the Group. Details are set out in note 21.
- (b) During the years ended 31 December 2011, 2012 and 2013, Mr. Yeung Wing Yan has paid expense on behalf of the Group, amounting to HK\$4,277,000, HK\$2,517,000 and nil respectively.
- (c) During the years ended 31 December 2011, Mr. Yeung Wing Yan has repaid the obligation under a finance lease on behalf of the Group, amounting to HK\$1,675,000.
- (d) During the years ended 31 December 2011 and 2012, Mr. Yeung Wing Yan has purchased tax reserve certificates on behalf of the Group of HK\$525,000 and HK\$2,100,000 respectively.
- (e) During the year ended 31 December 2012, the Group disposed of its entire equity interest in Billion Victor for a consideration of HK\$17,000,000 to Mr. Yeung Wan Yan. The consideration together with the amount due from Billion Victor are satisfied by current account with the director. Details are set out in note 27(ii).
- (f) During the year ended 31 December 2012, the Group disposed of its entire equity interest in Dongguan Hang Fat for a consideration of HK\$3,000,000 to an individual third party. The consideration was settled during the year ended 31 December 2013.
- (g) During the years ended 31 December 2011 and 2012, HF Hong and HF Ginseng Importer have declared dividends of in aggregate HK\$78,500,000 and HK\$111,349,000 and is satisfied by current account with a director.
- (h) During the years ended 31 December 2011, 2012 and 2013, the Group has purchased property, plant and equipment under finance lease of HK\$2,436,000, HK\$4,353,000 and HK\$530,000, respectively.
- (i) During the year ended 31 December 2013, HK\$1,082,000 sales proceed of disposing motor vehicles is used for settlement of obligation under finance lease.

**(A) FINANCIAL INFORMATION – continued****NOTES TO FINANCIAL INFORMATION – continued****34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

	<i>NOTE</i>	<b>2011</b> <i>HK\$'000</i>	<b>2012</b> <i>HK\$'000</i>	<b>2013</b> <i>HK\$'000</i>
Current assets				
Bank balances and cash		—	—	7
Current liabilities				
Amounts due to a subsidiary		—	—	208
Net liabilities		<u>—</u>	<u>—</u>	<u>(201)</u>
Capital and reserve				
Share capital	26	—	—	—
Reserve		—	—	(201)
		<u>—</u>	<u>—</u>	<u>(201)</u>

The reserve of the Company comprises of accumulated loss.

**(B) IMMEDIATE AND ULTIMATE HOLDING COMPANY**

The Company's ultimate holding company is Cervera Holdings Limited, a company which is incorporated in BVI.

**(C) DIRECTORS' REMUNERATION**

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Track Record Period.

**(D) SUBSEQUENT EVENTS**

The following significant events took place subsequent to 31 December 2013:

**(i) Restructuring**

Pursuant to a share transfer agreement dated 23 May 2014 and entered between Mr. Yeung Wing Yan, Mr. Yeung Wing Kong and Ms. Fu Fung Sau as vendors and warrantors and the Company, as purchaser, the Company acquired the entire issued share capital in Hang Fat Group Holdings, in consideration of which the Company, as directed by Mr. Yeung Wing Yan, Mr. Yeung Wing Kong and Ms. Fu Fung Sau, credited as fully paid the 1,000,000 nil-paid

shares in aggregate which were registered in the names of Cervera Holdings Limited, Ace Fame Management Limited, Dragon Jump Global Limited and Athena Power Limited. As a result the Company became the holding company of the Group on 23 May 2014.

**(ii) Share option scheme**

Pursuant to the written resolution of all the shareholders of the Company passed on 9 June 2014, the Company has conditionally adopted a share option scheme (the "Share Option Scheme"). The principal terms of the Share Option Scheme are set out in section headed "Share Option Scheme" in Appendix V to the Prospectus. No option was granted as at the date of this report.

**(iii) Increase of authorised and issued share capital**

Pursuant to a resolution passed by all shareholders of the Company dated 9 June 2014, the authorised share capital of the Company was increased from 1,000,000 to 5,000,000,000 by the creation of 4,999,000,000 additional shares of HK\$0.01 each.

In addition, conditional on the share premium account of the Company being credited as a result of the Global Offering, the directors of the Company were authorised to capitalise HK\$14,990,000 standing to the credit of the share premium account of the Company by applying that sum in paying up in full at par 1,499,000,000 shares for allotment and issue to the holders of shares whose names appear on the register of members of the Company at the close of business on 9 June 2014 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in the Company and so that the shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued shares and the directors of the Company were authorised to give effect to such capitalisation.

**(iv) Dividend**

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

**(E) SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies of the Group subsequent to 31 December 2013.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

The information sets out in this appendix does not form part of the accountants' report on the financial information of our Group for the three years ended 31 December 2013 (the "Accountants' Report") received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The statement of unaudited pro forma adjusted combined net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the audited combined net tangible assets of the Group as at 31 December 2013 as if the Global Offering had taken place on 31 December 2013.

The statement of unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the combined net tangible assets of the Group as at 31 December 2013 or any future date following completion of the Global Offering.

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31 December 2013 as shown in the accountant's report on the financial information of the Group for the three years ended 31 December 2013 (the "Accountants' Report"), the text of which is set out in Appendix I to the prospectus, and adjusted as follows. The statement of unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report.

	Audited combined net tangible assets of our Group as at 31 December 2013 <i>HK\$'000</i> <i>Note (a)</i>	Estimated net proceeds from the Global Offering <i>HK\$'000</i> <i>Note (b)</i>	Unaudited pro forma adjusted combined net tangible assets <i>HK\$'000</i>	Unaudited pro forma adjusted combined net tangible assets per Share <i>HK\$</i> <i>Note (c)</i>
Based on the Offer Price of HK\$1.44 per Offer Share	242,200	672,568	914,768	0.46
Based on the Offer Price of HK\$1.98 per Offer Share	242,200	933,097	1,175,297	0.59

*Notes:*

- (a) The audited combined net tangible assets of our Group as at 31 December 2013 is based on the combined net assets of our Group as shown in the Accountants' Report set out in Appendix I to this prospectus.
- (b) The estimated net proceeds from the Global Offering to be received by our Company are based on 500,000,000 New Shares at the respective Offer Price of HK\$1.44 and HK\$1.98 per Offer Share after deduction of underwriting fees and other related fees and expenses incurred and to be incurred by our Company since 1 January 2014. The calculation of such estimated net proceeds does not take into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Repurchase Mandate approved on 9 June 2014 which is set out in Appendix V to this prospectus.
- (c) The unaudited proforma adjusted combined net tangible assets per Share is arrived at on the basis that 2,000,000,000 Shares were in issue assuming that the Capitalisation Issue and the Global Offering had been completed on 31 December 2013 and does not take into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the Repurchase Mandate approved on 9 June 2014 which is set out in Appendix V to this prospectus.
- (d) No adjustment has been made to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2013. No adjustment has been made to reflect the declaration of dividend in an amount of HK\$210 million in May 2014.



**B. ASSURANCE REPORT FROM THE REPORTING ACCOUNTANTS ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants of our Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of our Group for the purpose of incorporation in this prospectus.*

**Deloitte.**  
**德勤**

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Hong Kong

**INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF HANG FAT GINSENG HOLDINGS COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hang Fat Ginseng Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma statement of adjusted combined net tangible assets as at 31 December 2013 and related notes as set out in Section A of Appendix II to the prospectus issued by the Company dated 17 June 2014 (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Section A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering on the Group’s financial position as at 31 December 2013 as if the event had taken place at 31 December 2013. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial information for the three years ended 31 December 2013, on which an accountant’s report set out in Appendix I to the Prospectus has been published.

**Directors’ Responsibilities for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
17 June 2014

*The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 April 2014 of the property interests of the Group.*



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
6/F Three Pacific Place 1 Queen's Road East Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Licence No: C-030171

17 June 2014

The Board of Directors  
Hang Fat Ginseng Holdings Company Limited

Dear Sirs,

In accordance with your instructions to value a property in which Hang Fat Ginseng Holdings Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interest as at 30 April 2014 (the "valuation date").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the property interest by direct comparison approach assuming sale of the property interest in its existing state and by making reference to comparable sales transactions as available in the relevant market and have also taken into account the existing tenancy. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any neither of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

We have been provided with copy of tenancy agreement relating to the property interests and have caused searches to be made at the Hong Kong Land Registry. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

The site inspection was carried out on 21 February 2014 by Mathew P. W. Ma, who is a Chartered Surveyor and a member of the RICS.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HK\$).

Our valuation certificate is attached.

Yours faithfully,  
For and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**

**Eddie T.W. Yiu**  
*MRICS MHKIS RPS (GP)*  
*Director*

*Note: Eddie T.W. Yiu is a Chartered Surveyor who has 20 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.*

## VALUATION CERTIFICATE

## Property Interest held for investment by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2014 HK\$
Flat A on 20th Floor Broadview Villa No. 20 Broadwood Road Happy Valley Hong Kong	The property comprises a unit on 20th floor of a 43-storey residential building erected on a 5-storey podium with car parking spaces and common areas completed in 1995.	The property (together with 2 car parking spaces) was leased to Podium Photonics Limited, an independent third party, for a term of three years commencing from 1 April 2012 and expiring on 31 March 2015 at a monthly rent of HK\$160,000 inclusive of Government rent, rates and management fee as at the valuation date for residential purpose.	84,500,000  100% interest attributable to the Group: HK\$84,500,000
156/14,215th shares of Inland Lot No.8812	The unit has a gross floor area of approximately 3,134 sq.ft. or a saleable area of approximately 2,853 sq.ft..  The property is held under a Conditions of Exchange No. 12154 for a term commencing from 19 July 1991 until 30 June 2047. The Government rent payable for Inland Lot No. 8812 is three per cent of the Rateable Value per annum.		

*Notes:*

1. Pursuant to our land search record, the registered owner of the property is Fortune Gaining Limited, an indirectly wholly-owned subsidiary of the Company, vide Memorial No. 09082602670158 dated 31 July 2009.
2. According to the Wong Nai Chung Outline Zoning Plan No. S/H7/16 dated 26 August 2011, the site of the property is zoned as Residential (Group C)1.
3. Pursuant to our land search record, as at the valuation date, the property was subject to, inter alia, the following encumbrances:
  - a. Mortgage in favour of The Hong Kong and Shanghai Banking Corporation Limited to secure all moneys in respect of general banking facilities vide Memorial No. 09082602670161 dated 31 July 2009;
  - b. Rent Assignment in favour of The Hong Kong and Shanghai Banking Corporation vide Memorial No. 09082602670171 dated 31 July 2009; and
  - c. Deed of Variation and Further Charge in favour of The Hongkong and Shanghai Banking Corporation vide Memorial No. 13112202560165 dated 29 October 2013.

4. As at the valuation date, the property was used for property activities and was the material property held by the Group:

**Details of the material property**

- (a) General description of location of the property : The Property is situated on the north-eastern side of Broadwood Road, next to Villa Lotto to its north in the Happy Valley area on Hong Kong Island.
- The immediate locality is a tranquil residential area and developments in the vicinity are medium-rise to high-rise residential buildings of various ages and design. The residents within this area are mainly medium to upper income group and expatriates. The subject locality and general environment are well-established without sign of any material change in the near future.
- (b) Details of encumbrances, liens, pledges, mortgages against the property : Please refer to note 3 above.
- (c) Environmental Issue : No environmental impact study has been carried out
- (d) Details of investigations, notices, pending litigation, breaches of law or title defects : Nil
- (e) Future plans for construction, renovation, improvement or development of the property : As advised by the Company, there is no plan for new major development or renovation in the next 12 months from the date of this document.

5. Our valuation has been made on the following basis and analysis:

- a. We have identified and analysed various relevant sales evidence in the locality which have similar characteristic as the subject property. The unit price of these comparables range from HK\$27,000/sq.ft. to HK\$35,000/sq.ft. on saleable area. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property to arrive at an assumed unit rate of HK\$29,620/sq.ft. on saleable area for the subject property; and
- b. The unit rate of the property is in line with the unit rate of these comparables within a reasonable range.



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**APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

**1.        MEMORANDUM OF ASSOCIATION**

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in Appendix VI to this Prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

**2.        ARTICLES OF ASSOCIATION**

The Articles were adopted on 9 June 2014. The following is a summary of certain provisions of the Articles.

**(a)       Directors**

**(i)       *Power to allot and issue shares***

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

*(v) Financial assistance to purchase shares of the Company or its holdings company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

*(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his close associate(s) (as defined in the Articles) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his close associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his close associate(s) has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his close associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his close associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his close associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to

Directors, close associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his close associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;

- (gg) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his close associate(s) may benefit; and
- (hh) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles.

**(vii) *Remuneration***

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

*(viii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

***(ix) Borrowing powers***

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Cayman Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

***(x) Qualification shares***

Directors of the Company are not required under the Articles to hold any qualification shares.

***(xi) Indemnity to Directors***

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

**(b) Alterations to constitutive documents**

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

**(c) Alterations of capital**

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub divided may determine that, as between the holders of the shares resulting from such sub division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;



- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

**(d) Variation of rights of existing shares or classes of shares**

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions – majority required**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days has been given.

**(f) Voting rights**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance

of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

**(g) Requirements for annual general meetings**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

**(h) Accounts and audit**

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Board by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Cayman Companies Law or of the Articles. Subject to due compliance with the Cayman Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Cayman Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

**(i) Notices of meetings and business to be conducted thereat**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer

imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reason(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

**(k) Power for the Company to purchase its own shares**

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Cayman Companies Law.

**(l) Power of any subsidiary to own securities in the Company**

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Cayman Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may

apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o) Corporate representatives**

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

**(p) Calls on shares and forfeiture of shares**

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

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**APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

**(q) Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 622) of the laws of Hong Kong.

**(r) Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

**(s) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

**(t) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

**(u) Procedures on liquidation**

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.



If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

**(v) Untraceable members**

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w) Stock**

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

**3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION**

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.



**(b) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares and the Cayman Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Cayman Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Cayman Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Cayman Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

**(d) Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

**(e) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

**(f) Management**

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(g) Accounting and auditing requirements**

The Cayman Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(i) Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j) Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k) Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(I) Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

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**APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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**5.        GENERAL**

Conyers Dill & Pearman (Cayman) Limited, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



**FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on 18 August 2011 with an authorised share capital of HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each. On 18 August 2011, one nil-paid Share was allotted and issued to Codan Trust Company (Cayman) Limited, which was transferred at nil consideration to Cervera on the same date. Our Company also allotted and issued 799,999, 14,000, 60,000 and 126,000 nil-paid Shares to Cervera, Ace Fame, Dragon Jump and Athena Power respectively on the same date. The said 1,000,000 nil-paid Shares were subsequently paid up in the manner described in our Reorganisation as set out in the paragraph headed “History and Reorganisation” in this prospectus. Our Company was registered under Part XI of Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. Part XVI of the Cap. 622 Companies Ordinance) on 8 January 2014.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a memorandum of association and the Articles. A summary of the relevant company laws and regulations of the Cayman Islands and of our Company’s constitution is set out in Appendix IV to this prospectus.

**2. Changes in share capital of our Company***(a) Increase in authorised share capital*

The authorised share capital of our Company was increased from HK\$10,000 to HK\$50,000,000 by the creation of 4,999,000,000 new Shares pursuant to a resolution passed by our Shareholders referred to in paragraph 3 below and subject to the conditions contained therein.

Immediately following completion of the Capitalisation Issue and the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and the Over-allotment Option), our authorised share capital will be HK\$50,000,000 divided into 5,000,000,000 Shares, of which 2,000,000,000 Shares will be issued fully paid or credited as fully paid, and 3,000,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this paragraph and in the paragraphs headed “Incorporation of our Company” and “Resolutions of our Shareholders” of this Appendix and the paragraph headed “History and Reorganisation – Reorganisation” in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

(b) *Founder shares*

Our Company has no founder shares, management shares or deferred shares.

**3. Resolutions of our Shareholders**

By resolutions in writing of all of our Shareholders passed on 9 June 2014:

- (a) we approved and adopted the Articles;
- (b) conditional on (aa) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the International Placing Agreement on or before the date as mentioned in this prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
  - (i) the authorised share capital of our Company was increased from HK\$10,000 to HK\$50,000,000 by the creation of an additional 4,999,000,000 new Shares;
  - (ii) the Global Offering and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to (aa) allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option; (bb) implement the Global Offering and the listing of the Shares on the Main Board of the Stock Exchange; and (cc) do all things and execute all documents in connection with or incidental to the Global Offering and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
  - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
  - (iv) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise HK\$14,990,000 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 1,499,000,000 Shares for allotment and issue

to the holders of Shares whose names appear on the register of members of our Company at the close of business on 9 June 2014 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or upon the exercise of any options which may be granted under the Share Option Scheme or under the Capitalisation Issue or the Global Offering or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; and (bb) the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (vi) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (vi) a general unconditional mandate was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (vii) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (v) above to include the nominal amount of Shares which may be purchase or repurchased pursuant to paragraph (vi) above; and

- (c) the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our independent non-executive Directors, of which the appointment of Mr. Kwok Lam Kwong Larry would take effect on the Listing Date, with our Company were approved.

#### 4. Subsidiaries of our Company

(a) *HF Hong*

HF Hong was incorporated in Hong Kong with limited liability on 28 April 1989 with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of the incorporation of HF Hong, the issued share capital of HF Hong was HK\$2.00 whereby each of Mr. Matthew Yeung and Ms. Wong Mei Kuen, Joan (“**Ms. Wong**”), the spouse of Mr. Matthew Yeung, beneficially owned 50% of the issued share capital of HF Hong. On 11 May 1989, HF Hong allotted and issued 9,499 shares and 499 shares at par to Mr. Matthew Yeung and Ms. Wong respectively. On 1 July 1989, the authorised share capital of HF Hong increased from HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 to HK\$200,000, divided into 200,000 ordinary shares of HK\$1.00. On 3 July 1989, HF Hong allotted and issued 90,000 shares, 50,000 shares and 50,000 shares at par to each of Mr. Matthew Yeung, Madam Fu and Mr. Yeung Ngan Chuen, the father of Mr. Matthew Yeung and Mr. Jeffrey Yeung, respectively. On 17 July 1989, Ms. Wong transferred 500 shares of HF Hong to Mr. Matthew Yeung for a consideration of HK\$500 and ceased to be a shareholder of HF Hong.

On 8 April 1992, Madam Fu transferred 30,000 shares in HF Hong to Mr. Jeffrey Yeung for a consideration of HK\$30,000.

On 10 June 1993, Mr. Yeung Ngan Chuen transferred 25,000 shares in HF Hong to each of Mr. Matthew Yeung and Mr. Jeffrey Yeung for a consideration of HK\$25,000 and HK\$25,000 respectively, and ceased to be a shareholder of HF Hong. On 15 June 1993, the authorised share capital of HF Hong increased from HK\$200,000, divided into 200,000 ordinary shares of HK\$1.00 to HK\$1,000,000, divided into 1,000,000 ordinary shares of HK\$1.00. On the same date, HF Hong allotted and issued 505,000 shares, 50,000 shares and 245,000 shares at par to each of Mr. Matthew Yeung, Madam Fu and Mr. Jeffrey Yeung, respectively.

On 19 December 1994, the authorised share capital of HF Hong increased from HK\$300,000, divided into 300,000 ordinary shares of HK\$1.00 to HK\$5,000,000, divided into 5,000,000 ordinary shares of HK\$1.00. On the same date, HF Hong issued 2,520,000 shares, 280,000 shares and 1,200,000 shares at par to each of Mr. Matthew Yeung, Madam Fu and Mr. Jeffrey Yeung, respectively.

On 18 August 2011, each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu transferred 3,150,000 shares, 1,500,000 shares and 350,000 shares respectively in HF Hong, in aggregate being its entire issued share capital, to Sparking Square in consideration of Sparking Square allotting and issuing at par one share of US\$1.00 credited as fully paid to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu. Since the transfer, HF Hong has become a wholly-owned subsidiary of Sparking Square.

As at the Latest Practicable Date, HF Hong was principally engaged in sourcing of American Ginseng.

**(b) *Flying Century***

Flying Century was incorporated in Hong Kong with limited liability on 8 August 2003, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, the issued share capital of Flying Century was HK\$2.00 whereby one subscriber share was allotted and issued at par to each of Smart Registration Limited and Smart Secretarial Limited. On 25 August 2003, Flying Century allotted and issued at par three shares, two shares and three shares of HK\$1.00 each to Mr. Matthew Yeung, Mr. Fok Moon Tong, Thomas and Ms. Ng Ching Yee, Michelle, respectively. On 26 August 2003, each of Smart Registration Limited and Smart Secretarial Limited transferred its one share in Flying Century to Mr. Matthew Yeung for a consideration of HK\$1.00, and ceased to be a shareholder of Flying Century. As confirmed by our Directors to their best knowledge, as Mr. Fok Moon Tong, Thomas and Ms. Ng Ching Yee, Michelle, both being Independent Third Parties, intended to emigrate overseas, on 6 November 2009, Mr. Fok Moon Tong, Thomas and Ms. Ng Ching Yee, Michelle transferred two shares and three shares in Flying Century to Mr. Matthew Yeung for a consideration of HK\$2.00 and HK\$3.00, respectively, and both ceased to be shareholders of Flying Century.

On 18 August 2011, Mr. Matthew Yeung transferred 10 shares in Flying Century, being its entire issued share capital, to Sparking Square in consideration of Sparking Square allotting and issuing at par one share of US\$1.00 credited as fully paid to Mr. Matthew Yeung. Since the transfer, Flying Century has become a wholly-owned subsidiary of Sparking Square.

As at the Latest Practicable Date, Flying Century was principally engaged in property and assets holding.

**(c) *Billion Victor***

Billion Victor was incorporated in Hong Kong with limited liability on 26 February 2009, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, the issued share capital of Billion Victor was HK\$1.00, whereby one subscriber share of HK\$1.00 was allotted and issued at par to Cartech Limited, an Independent Third Party. On 2 March 2009, Cartech Limited transferred its share to Mr. Matthew Yeung for a consideration of HK\$1.00 and ceased to be a shareholder of Billion Victor. On 1 February 2011, Billion Victor allotted and issued at par 9,999 shares of HK\$1.00 each to HF Hong. On 31 March 2011, Mr. Matthew Yeung transferred his one share in Billion Victor to HF Hong for a consideration of HK\$1.00. On 30 January 2012, the authorised share capital of Billion Victor increased from HK\$10,000 divided into 10,000 shares of HK\$1.00 to HK\$100,000 divided into 100,000 shares of HK\$1.00 each. On the same date, Billion Victor issued and allotted 90,000 shares of HK\$1.00 each to Mr. Matthew Yeung. On 22 February 2012, HF Hong transferred its 10,000 shares in Billion Victor to Mr. Matthew Yeung at an aggregate consideration of HK\$17,000,000, which was determined by reference to the then net asset value of Billion Victor.

As confirmed by our Directors, Billion Victor was formed for the purpose of property holding and had held a property which was then used as director's quarter. It is intended by our Directors that Billion Victor would not be included as part of our Group. As at the Latest Practicable Date, Billion Victor was no longer a subsidiary of our Group.

**(d) Fortune Gaining**

Fortune Gaining was incorporated in Hong Kong with limited liability on 17 March 2009, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, the issued share capital of Fortune Gaining was HK\$1.00 whereby one subscriber share of HK\$1.00 was allotted and issued at par to Cartech Limited. On 23 March 2009, Cartech Limited transferred its share to Mr. Matthew Yeung for a consideration of HK\$1.00 and ceased to be a shareholder of Fortune Gaining. On 1 February 2011, Fortune Gaining allotted and issued at par 9,999 shares of HK\$1.00 each to HF Hong. On 31 March 2011, Mr. Matthew Yeung transferred his one share in Fortune Gaining to HF Hong for a consideration of HK\$1.00.

Since 31 March 2011 HF Hong was interested in 10,000 shares, representing 100% of the issued share capital of Fortune Gaining.

As at the Latest Practicable Date, Fortune Gaining was principally engaged in property holding and leasing.

**(e) Metro Victor**

Metro Victor was incorporated in Hong Kong with limited liability on 4 August 2009, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, the issued share capital of Metro Victor was HK\$1.00, whereby one subscriber share of HK\$1.00 was allotted and issued at par to Cartech Limited. On 30 November 2009, Cartech Limited transferred its share to Mr. Matthew Yeung for a consideration of HK\$1.00 and ceased to be a shareholder of Metro Victor. On 1 February 2011, Metro Victor allotted and issued at par 9,999 shares of HK\$1.00 each to HF Hong. On 31 March 2011, Mr. Matthew Yeung transferred his one share in Metro Victor to HF Hong for a consideration of HK\$1.00 and continued to be indirectly interested in 63% of the issued share capital of Metro Victor through HF Hong. On 2 April 2012, HF Hong entered into a sale and purchase agreement (“SPA”) to transfer its 10,000 shares in Metro Victor to Great Well Properties Limited, a company which was then held as to 30% by Mr. Matthew Yeung and as to 70% in aggregate by two Independent Third Parties at a consideration of HK\$50,000,000, which was determined by reference to the then net asset value of Metro Victor. Such consideration was paid and settled in full by Great Well Properties Limited by 30 March 2012, whereby parties thereto acknowledged full payment in the SPA. As at the Latest Practicable Date, Great Well Properties Limited was wholly-owned by three Independent Third Parties, and Mr. Matthew Yeung was a director of such company.

As confirmed by our Directors, Metro Victor was formed for the purpose of property holding and had held a property which was then used for hosting functions. It is intended by our Directors that Metro Victor would not be included as part of our Group. As at the Latest Practicable Date, Metro Victor was no longer a member of our Group.

(f) *Heng Xhin*

Heng Xhin was incorporated in Hong Kong with limited liability on 30 April 2010, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, the issued share capital of Heng Xhin was HK\$10,000, whereby HF Hong and Moment Design Company Limited, an Independent Third Party, beneficially owned 51% and 49%, respectively, of the issued share capital of Heng Xhin. On 31 March 2011, HF Hong transferred to Moment Design Company Limited 5,100 shares of HK\$1.00 each, representing 51% of the issued share capital of Heng Xhin at a consideration of HK\$5,100.

As confirmed by our Directors, Heng Xhin was formed as a business venture with Moment Design Company Limited to engage in the sale and purchase of ginseng related products. Since Heng Xhin's establishment, only minimal business has been done. For the financial year of 2011, only one transaction was concluded and revenue of approximately HK\$8,500 was recorded.

As Heng Xhin only had minimal business operation and was not wholly owned by our Group, it is intended by our Directors that Heng Xhin would not be included as part of our Group. As at the Latest Practicable Date, Heng Xhin had been dissolved.

(g) *Long Xi*

Long Xi was incorporated in Hong Kong with limited liability on 12 May 2010, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, the issued share capital of Long Xi was HK\$10,000, whereby HF Hong and Albert Y. K. Lau (Nominees) Company Limited, an Independent Third Party, beneficially owned 99% and 1%, respectively, of the issued share capital of Long Xi. On 31 March 2011, Albert Y. K. Lau (Nominees) Company Limited transferred to HF Hong 100 shares of HK\$1.00 each, representing 1% of the issued share capital in Long Xi. Following the transfer, Albert Y. K. Lau (Nominees) Company Limited ceased to be a shareholder of Long Xi.

On 18 August 2011, HF Hong transferred 10,000 shares in Long Xi, being its entire issued share capital, to Union Field in consideration of Union Field, as directed by HF Hong, allotting and issuing at par one share of US\$1.00 credited as fully paid to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu. Since the transfer, Long Xi has become a wholly-owned subsidiary of Union Field.

As at the Latest Practicable Date, Long Xi was principally engaged in the processing and sale of ginseng related products.

(h) *HF Holdings*

HF Holdings was incorporated in Hong Kong with limited liability on 17 May 2010, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, the issued share capital of HF Holdings was HK\$10,000, where 10,000 subscriber shares of HK\$1.00 each were allotted and issued at par to Mr. Matthew Yeung.

On 18 August 2011, Mr. Matthew Yeung transferred 10,000 shares in HF Holdings, being its entire issued capital, to Sparkling Square in consideration of Sparkling Square allotting and issuing at par one share of US\$1.00 credited as fully paid to Mr. Matthew Yeung. Since the transfer, HF Holdings has become a wholly-owned subsidiary of Sparkling Square.

As at the Latest Practicable Date, HF Holdings was principally engaged in carrying out the administrative functions of our Group.

(i) *Sparkling Square*

Sparkling Square was incorporated as a limited liability company in the BVI on 21 March 2011, with an authorised share capital US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each. On 29 June 2011, Sparkling Square allotted and issued at par 60 shares, 29 shares and 6 shares to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu respectively. On 18 August 2011, Sparkling Square allotted and issued one share of US\$1.00 credited as fully paid to each of Madam Fu, Mr. Matthew Yeung and Mr. Jeffrey Yeung as a consideration for its acquisition of the entire issued share capital of HF Hong from Madam Fu, Mr. Matthew Yeung and Mr. Jeffrey Yeung. On the same date, Sparkling Square also allotted and issued two shares of US\$2.00 credited as fully paid to Mr. Matthew Yeung as a consideration for its acquisition of the entire issued share capital of Flying Century and HF Holdings from Mr. Matthew Yeung. On 20 December 2013, each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu transferred 63 shares, 30 shares and 7 shares respectively in Sparkling Square, in aggregate being its entire issued share capital, in consideration of US\$100 to Hang Fat Group Holdings. Since the transfer and as at the Latest Practicable Date, Sparkling Square was 100% owned by Hang Fat Group Holdings. Since the date of its incorporation and as at the Latest Practicable Date, Sparkling Square was an investment holding company.

(j) *Union Field*

Union Field was incorporated as a limited liability company in the BVI on 21 March 2011, with an authorised share capital US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each. On 29 June 2011, Union Field allotted and issued at par 61 shares, 28 shares and 5 shares to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu respectively. On 18 August 2011, Union Field allotted and issued one share of US\$1.00 credited as fully paid each of Madam Fu, Mr. Matthew Yeung and Mr. Jeffrey Yeung as a consideration for its acquisition of the entire issued share capital of HF Ginseng Importer from Madam Fu, Mr. Matthew Yeung and Mr. Jeffrey Yeung. On the same date, Union Field also allotted and issued one share of US\$1.00



credited as fully paid to each of Madam Fu, Mr. Matthew Yeung and Mr. Jeffrey Yeung as a consideration for its acquisition of the entire issued share capital of Long Xi from Madam Fu, Mr. Matthew Yeung and Mr. Jeffrey Yeung. On 20 December 2013, each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu transferred 63 shares, 30 shares and 7 shares respectively in Union Field, in aggregate being its entire issued share capital, in consideration of US\$100 to Hang Fat Group Holdings. Since the transfer and as at the Latest Practicable Date, Union Field was 100% owned by Hang Fat Group Holdings. Since the date of its incorporation and as at the Latest Practicable Date, Union Field was an investment holding company.

**(k) HF Ginseng Importer**

HF Ginseng Importer was incorporated in Hong Kong with limited liability on 11 April 2011, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, the issued share capital of HF Ginseng Importer was HK\$10,000, whereby each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu owned 63%, 30% and 7% of the issued share capital of HF Ginseng Importer, respectively.

On 18 August 2011, Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu transferred 6,300 shares, 3,000 shares and 700 shares respectively in HF Ginseng Importer, in aggregate being its entire issued share capital, to Union Field in consideration of Union Field allotting and issuing at par one share of US\$1.00 credited as fully paid to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu. Since the transfer, HF Ginseng Importer has become a wholly-owned subsidiary of Union Field.

As at the Latest Practicable Date, HF Ginseng Importer was an investment holding company.

**(l) Dongguan HF**

Dongguan HF was established in the PRC as a wholly foreign-owned enterprise on 12 July 2011, with a registered capital of HK\$3,000,000, the entire of which was paid up by HF Holdings. On 11 November 2012, HF Holdings entered into a contract to transfer all its equity interest, to Wong Hoi Yan Katie, an Independent Third Party, at a consideration of HK\$3,000,000 which was determined by reference to the then net asset value of Dongguan HF. The application for such transfer of equity interest in Dongguan HF was approved by the relevant government authority on 23 November 2012 and the relevant certificate of approval was obtained on 26 November 2012. As advised by our PRC legal advisers, such transfer of equity interest in Dongguan HF complied with the relevant laws and regulations in the PRC.

As confirmed by our Directors, Dongguan HF was formed to engage in the wholesale and import-export business of ginseng in the PRC. Due to difficulty in obtaining 藥品經營許可證 (Pharmaceutical Trade Licence\*) from the relevant authority in the PRC, Dongguan HF was not included as part of our Group. Since its establishment, Dongguan HF had not commenced any business operation. Upon completion of such equity transfer and as at the Latest Practicable Date, Dongguan HF is no longer a subsidiary of our Group.

(m) *Jiangxi HF*

Jiangxi HF was established in the PRC as a wholly foreign-owned enterprise on 5 August 2011, with a total investment amount of HK\$3,000,000. Jiangxi HF was deregistered with Nanchang Administration for Industry and Commerce on 8 May 2012. As advised by our PRC legal advisers, the deregistration of Jiangxi HF complied with the then laws and regulations in the PRC.

As confirmed by our Directors, Jiangxi HF was formed to engage in the sale and purchase of ginseng in the PRC. Due to its relatively remote and inconvenient geographical location, our Directors consider carrying out the sale and purchase of ginseng business in the PRC by Jiangxi HF was not cost effective and decided to apply for deregistration of Jiangxi HF, hence Jiangxi HF was not included as part of our Group. Since its establishment, Jiangxi HF had not commenced any business operation. As as the Latest Practicable Date, Jiangxi HF is no longer a subsidiary of our Group.

(n) *HF Importer*

HF Importer was incorporated in Hong Kong with limited liability on 23 November 2012, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, HF Importer allotted and issued 10,000 shares at par to Union Field.

As as the Latest Practicable Date, Union Field was interested in 10,000 shares of HK\$1.00 each, representing 100% of the issued share capital of HF Importer and HF Importer was an investment holding company.

(o) *Elegant Ocean*

Elegant Ocean was incorporated as a limited liability company in the BVI on 3 January 2013, with an authorised share capital US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each. On the date of its incorporation, Elegant Ocean allotted and issued at par 63 shares, 30 shares and 7 shares to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu respectively. On 20 December 2013, each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu transferred 63 shares, 30 shares and 7 shares respectively in Elegant Ocean, in aggregate being its entire issued share capital, in consideration of US\$100 to Hang Fat Group Holdings. Since the transfer and as at the Latest Practicable Date, Elegant Ocean was 100% owned by Hang Fat Group Holdings. Since the date of incorporation and as at the Latest Practicable Date, Elegant Ocean was an investment holding company.

(p) *Wealthy Harvest*

Wealthy Harvest was incorporated as a limited liability company in the BVI on 11 January 2013, with an authorised share capital US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each. On the date of its incorporation, Wealthy Harvest allotted and issued at par 63

shares, 30 shares and 7 shares to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu respectively. On 20 December 2013, each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu transferred 63 shares, 30 shares and 7 shares respectively in Wealthy Harvest, in aggregate being its entire issued share capital, in consideration of US\$100 to Hang Fat Group Holdings. Since the date of transfer and as at the Latest Practicable Date, Wealthy Harvest was 100% owned by Hang Fat Group Holdings. Since the date of incorporation and as at the Latest Practicable Date, Wealthy Harvest was an investment holding company.

**(q) *Billion Wealth***

Billion Wealth was incorporated as a limited liability company in the BVI on 20 March 2013, with an authorised share capital of US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each. On the date of its incorporation, Billion Wealth allotted and issued at par 63 shares, 30 shares and 7 shares to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu respectively. On 20 December 2013, each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu transferred 63 shares, 30 shares and 7 shares respectively in Billion Wealth, in aggregate being its entire issued share capital, in consideration of US\$100 to Hang Fat Group Holdings. Since the date transfer and as at the Latest Practicable Date, Billion Wealth was 100% owned by Hang Fat Group Holdings. Since the date of incorporation and as at the Latest Practicable Date, Billion Wealth was an investment holding company.

**(r) *HF Ginseng***

HF Ginseng was incorporated as a limited liability company in Hong Kong on 8 May 2013, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, HF Ginseng allotted and issued at par 10,000 shares to Elegant Ocean. As at the Latest Practicable Date, HF Ginseng was 100% owned by Elegant Ocean. Since the date of incorporation and as at the Latest Practicable Date, HF Ginseng was principally engaged in retailing of American Ginseng and Other Products.

**(s) *HF Ginseng Retail***

HF Ginseng Retail was incorporated as a limited liability company in Hong Kong on 8 May 2013, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, HF Ginseng Retail allotted and issued at par 10,000 shares to Billion Wealth. As at the Latest Practicable Date, HF Ginseng Retail was 100% owned by Billion Wealth. Since the date of incorporation and as at the Latest Practicable Date, HF Ginseng Retail was principally engaged in wholesaling and retailing of American Ginseng and Other Products.

(t) *HF Ginseng Trading*

HF Ginseng Trading was incorporated as a limited liability company in Hong Kong on 8 May 2013, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, HF Ginseng Trading allotted and issued at par 10,000 shares to Wealthy Harvest. As at the Latest Practicable Date, HF Ginseng Trading was 100% owned by Wealthy Harvest. Since the date of incorporation and as at the Latest Practicable Date, HF Ginseng Trading was principally engaged in wholesaling of Wild Ginseng.

(u) *Hang Fat (2013)*

Hang Fat (2013) was incorporated as a limited liability company in Hong Kong on 24 May 2013, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. On the date of its incorporation, Hang Fat (2013) allotted and issued at par 10,000 shares to Union Field. As at the Latest Practicable Date, Hang Fat (2013) was 100% owned by Union Field. Since the date of incorporation and as at the Latest Practicable Date, Hang Fat (2013) was principally engaged in the wholesaling of Cultivated Ginseng.

(v) *Hang Fat Group Holdings*

Hang Fat Group Holdings was incorporated as a limited liability company in the BVI on 18 June 2013, with an authorised share capital of US\$50,000, divided into 50,000 ordinary shares of US\$1.00 each. On the date of its incorporation, Hang Fat Group Holdings allotted and issued at par 63 shares, 30 shares and 7 shares to each of Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu respectively. Pursuant to a share transfer agreement dated 23 May 2014 and entered into between Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu as vendors and warrantors and our Company as purchaser, we acquired the entire issued share capital in Hang Fat Group Holdings, in consideration of which our Company, as directed by Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu, credited as fully paid at par the 1,000,000 nil-paid Shares in aggregate which were registered in the names of Cervera, Ace Fame, Dragon Jump and Athena Power. As at the Latest Practicable Date, Hang Fat Group Holdings was wholly owned by our Company.

(w) *Greatest Maker*

Greatest Maker was incorporated in Hong Kong with limited liability on 23 May 2013, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. The issued share capital of Greatest Maker of HK\$1.00 was subscribed by Cartech Limited, an Independent Third Party, on the date of its incorporation. On 8 November 2013, Cartech Limited transferred to Sparkling Square one share of HK\$1.00, representing the entire issued share capital in Greatest Maker at a consideration of HK\$1.00. Following the transfer, Cartech Limited ceased to be a shareholder of Greatest Maker.

Since the date of incorporation and as at the Latest Practicable Date, Greatest Maker was an investment holding company. As at the Latest Practicable Date, Greatest Maker was 100% owned by Sparkling Square.

*(x) Greatest Summit*

Greatest Summit was incorporated in Hong Kong with limited liability on 27 September 2013, with an authorised share capital of HK\$10,000, divided into 10,000 ordinary shares of HK\$1.00 each. The issued share capital of Greatest Summit of HK\$1.00 was subscribed by Cartech Limited, an Independent Third Party, on the date of its incorporation. On 8 November 2013, Cartech Limited transferred to Sparkling Square one share of HK\$1.00, representing the entire issued share capital in Greatest Summit at a consideration of HK\$1.00. Following the transfer, Cartech Limited ceased to be a shareholder of Greatest Summit.

Since the date of incorporation and as at the Latest Practicable Date, Greatest Summit was an investment holding company. As at the Latest Practicable Date, Greatest Summit was 100% owned by Sparkling Square.

Each of the share transfers referred to in this paragraph was properly and legally completed and settled.

**5. Group reorganisation**

The companies comprising our Group underwent a reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on the Stock Exchange, steps of our Reorganisation are set out in the section headed "History and Reorganisation – Reorganisation" in this prospectus.

**6. Changes in share capital of our subsidiaries**

Our subsidiaries are listed in the accountants' report set out in Appendix I to this prospectus.

Save for the alterations described in paragraph 4 above and the section headed "History and Reorganisation – Reorganisation" in this prospectus, there is no alteration in the share capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus.

**7. Further information about our Group's PRC establishments**

As at the Latest Practicable Date, our Group does not have any PRC establishments.

**8. Repurchase by our Company of our own securities**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own securities.

**(a) Shareholders' approval**

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by our Shareholders on 9 June 2014, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

**(b) Source of funds**

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles and the Cayman Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by us may be made out of our profits, our share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the Cayman Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of either or both of our profits or our share premium account or, if authorised by the Articles and subject to the Cayman Companies Law, out of capital.

**(c) Reasons for repurchases**

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

*(d) Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

*(e) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

**9. Registration under Part XI of Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. Part XVI of the Cap. 622 Companies Ordinance)**

Our Company has established our head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. Part XVI of the Cap. 622 Companies Ordinance) at G/F, Nam Pak Hong Commercial Centre, 44 Bonham Strand West, Hong Kong. Our Company has been registered as non-Hong Kong company under Part XI of Companies Ordinance, Chapter 32 of the Laws of Hong Kong, prior to 3 March 2014 (i.e. Part XVI of the Cap. 622 Companies Ordinance). Ms. Yip Tak Yung, Teresa, our company secretary and Chief Financial Officer has been appointed as agent of our Company for the acceptance of service of process in Hong Kong.

**FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**

**10. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an equity transfer agreement dated 11 November 2012 and entered into by HF Holdings (恒發控股有限公司\*) and Wong Hoi Yan Katie (王凱茵), an Independent Third Party, pursuant to which Wong Hoi Yan Katie (王凱茵) acquired the registered capital of HK\$3,000,000 of Dongguan HF, representing its 100% equity interest, at a consideration of HK\$3,000,000;
- (b) a share purchase agreement dated 23 May 2014 and entered into by and among Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu as vendors and warrantors and our Company as purchaser, pursuant to which our Company acquired the entire issued share capital of Hang Fat Group Holdings, in consideration of and in exchange for which our Company, as directed by Mr. Matthew Yeung, Mr. Jeffrey Yeung and Madam Fu, credited as fully paid the 1,000,000 nil-paid Shares in aggregate which were registered in the names of Cervera, Athena Power, Ace Fame and Dragon Jump;
- (c) a deed of indemnity dated 16 June 2014 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities more particularly referred to in the paragraph headed “Estate duty, tax and other indemnities” of this Appendix; and
- (d) the Hong Kong Underwriting Agreement.



## 11. Intellectual property rights of our Group

As at the Latest Practicable Date, we are the registered owner of a domain name: www.hangfatg.com.

As at the Latest Practicable Date, our Group has registered the following trademarks:

No.	Trademark	Owner	Place of registration	Class	Trademark number	Duration of validity
1.		HF Ginseng Importer	Hong Kong	5, 30, 31, 35 (Note 1)	302272004	4 June 2012 to 3 June 2022
2.		HF Ginseng Importer	Hong Kong	5, 30, 31, 35 (Note 1)	302272022	4 June 2012 to 3 June 2022
3.		HF Ginseng Importer	Hong Kong	5, 29, 30, 31, 32, 35 (Note 2)	302715093	23 August 2013 to 22 August 2023

Notes:

- The specific goods or services (as the case may be) under the respective classes in respect of which these trademarks were registered for are as follows:

Class	Goods/Services
5	Chinese herbal medicines, american ginseng teabags (health supplement)
30	Ginseng sweets
31	Unprocessed agricultural products, fresh ginseng
35	Retail and wholesale of ginseng and herbal medicines

2. The specifications under the respective classes in respect of which this trademark was registered for are as follows:

<b>Class</b>	<b>Specifications</b>
5	Ginseng for medical use, ginseng powder for medical use, ginseng extract for medical use, ginseng capsules, ginseng tablets, medicine for digestive system, medicine for nervous system, medicine for circulatory organ, medicine for genital organ, medicine for hypoglycemic agent, medicine for swelling and pain, medicine for excretory organ, medical supplementary nutrition, medicine for respiratory organ, kidney tonic, blood tonic, ginseng powder, red ginseng powder, ginseng extracts, red ginseng extracts
29	Processed ginseng (other than for medical use), processed red ginseng (other than for medical use), health-aid food containing ginseng (other than for medical use), health-aid food containing red ginseng (other than for medical use)
30	Green tea, black tea, ginseng tea, red ginseng tea
31	Ginseng and red ginseng
32	Soft drink containing ginseng, ginseng juice, ginseng drinks, sport drinks containing ginseng, concentrated ginseng juice
35	Advertising; administration of business affairs of trading, import, export, merchandising, wholesale and retailing; business consultancy and advisory services relating to trading, import, export, merchandising, wholesale and retailing of ginseng, ginseng related products, soaps, perfumery, essential oils, cosmetics, lotion, masks, oil scrubs, hair lotion, shampoo, conditioner, pharmaceutical, veterinary and sanitary substances, infants' and infantile food, herbal tea, pollen for use as a dietary supplement, dietary supplements, nutritional supplements, vitamin and mineral supplements and plasters; distribution of personal care products, cosmetics, nutritional and dietary supplements

## 12. Related party transactions

Save as disclosed in note 32 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material related party transactions.

## FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

## 13. Directors

*(a) Disclosure of interests of Directors*

- (i) Mr. Matthew Yeung, Mr. Jeffrey Yeung, and Madam Fu are interested in our Reorganisation.
- (ii) Save as disclosed in this prospectus, none of our Directors or their associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.

*(b) Particulars of Directors' service contracts**Executive Directors*

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 9 June 2014. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless either party has given at least three months' written notice of non-renewal before the expiry of the then existing term.

Each of our executive Directors is entitled to a basic salary as set out below (subject to an annual increment after 9 June 2015 at the discretion of our Directors of not more than 5% of the annual salary immediately prior to such increase). In addition, each of our executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all our executive Directors for any financial year of our Company may not exceed 15% of the audited combined or consolidated audited net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of our executive Directors are as follows:

<b>Name</b>	<b>Annual salary</b> <i>HK\$'000</i>
Mr. Matthew Yeung	3,000
Mr. Jeffrey Yeung	2,000
Madam Fu	1,200

*Independent non-executive Directors*

Two of our independent non-executive Directors, namely Mr. Wong Senta and Mr. Cheung Chung Wai Billy, have been appointed for an initial term of two years commencing from 9 June 2014; while the other of our independent non-executive Director, being Mr. Kwok Lam Kwong Larry, was appointed for an initial term of two years commencing from the Listing Date. The term of each of our independent non-executive Directors is renewable automatically for successive term of one year each commencing from the next day after the expiry of the then current term of appointment, unless terminated by not less than three months' notice in writing served by our independent non-executive Director or our Company expiring at the end of the initial term or at any time thereafter. Each of our independent non-executive Directors is entitled to a director's fee of HK\$160,000 per annum. Save for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**(c) *Remuneration of Directors***

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of the financial year ended 31 December 2013 was approximately HK\$5,015,000.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2014, are expected to be approximately HK\$5,668,000.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2013 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2013.

**(d) *Interests and short positions of our Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering***

Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

**(i) *Interest in our Company***

<b>Name of Director</b>	<b>Capacity/nature of interest</b>	<b>Number and class of securities (Note 1)</b>	<b>Approximate percentage of shareholding</b>
Mr. Matthew Yeung	Interest of controlled corporations	1,389,000,000 Shares (L) (Note 2)	69.45%
Mr. Jeffrey Yeung	Interest of controlled corporation	90,000,000 Shares (L) (Note 3)	4.50%
Madam Fu	Interest of controlled corporation	21,000,000 Shares (L) (Note 4)	1.05%

*Notes:*

- The letter "L" denotes long position in our Shares.
- These Shares consist of 1,200,000,000 Shares held by Cervera and 189,000,000 Shares held by Athena Power. Cervera was owned as to 63% by Mr. Matthew Yeung, 30% by Mr. Jeffrey Yeung and 7% by Madam Fu. Athena Power was wholly owned by Mr. Matthew Yeung.
- These Shares consist of 90,000,000 Shares held by Dragon Jump. Dragon Jump was wholly owned by Mr. Jeffrey Yeung.
- These Shares consist of 21,000,000 Shares held by Ace Fame. Ace Fame was wholly owned by Madam Fu.

(ii) *Interest in Cervera*

Name of Director	Capacity/nature of interest	Number and class of securities (Note)	Percentage of shareholding
Mr. Matthew Yeung	Beneficial owner	63 shares of US\$1.00 each (L)	63%
Mr. Jeffrey Yeung	Beneficial owner	30 shares of US\$1.00 each (L)	30%
Madam Fu	Beneficial owner	7 shares of US\$1.00 each (L)	7%

*Note:* The letter “L” denotes our Director’s long position in the shares of Cervera.

**14. Interest discloseable under the SFO and substantial shareholders**

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of our Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering” above, the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name of Shareholders	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Ms. Wong Mei Kuen Joan	Interest of spouse	1,389,000,000 Shares (L) (Note 2)	69.45%
Cervera	Beneficial Owner	1,200,000,000 Shares (L)	60.00%
Athena Power	Beneficial Owner	189,000,000 Shares (L)	9.45%

*Notes:*

- The letter “L” denotes the individual’s/corporation’s long position in our Shares.
- Ms. Wong Mei Kuen Joan is the wife of Mr. Matthew Yeung.

**15. Disclaimers**

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Capitalisation Issue and the Global Offering, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of us;
- (b) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in paragraph 23 has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of us nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in paragraph 23 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business; and
- (e) save in connection with the Underwriting Agreements, none of the parties listed in paragraph 23 below:
  - (i) is interested legally or beneficially in any securities of any member of us; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of us.

## OTHER INFORMATION

## 16. Share Option Scheme

*(a) Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all Shareholders on 9 June 2014:

*(i) Purposes of the scheme*

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to our development so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

*(ii) Who may join*

Our Directors (which expression shall, for the purpose of this paragraph 16, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (the “**Invested Entity**”) in which our Group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of any member of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;



- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who fall within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(iii) *Maximum number of Shares*

- (aa) The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group shall not exceed 30% of the issued share capital of our Company in issue from time to time.
- (bb) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board (the “**General Scheme Limit**”).
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for

the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to our Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

*(iv) Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

*(v) Grant of options to connected persons*

- (aa) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates (as defined under the Listing Rules) must be approved by independent non-executive Directors (excluding any independent non-executive Director who or whose associates is the grantee of the options).

- (bb) Where any grant of options to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate over 0.1% of the Shares in issue; and
  - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting. Our Company must send a circular to our Shareholders. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates must be approved by our Shareholders in general meeting.

*(vi) Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

*(vii) Performance targets*

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

*(viii) Subscription price for Shares and consideration for the option*

The subscription price for Shares under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of our Shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

*(ix) Ranking of Shares*

(aa) Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the name of the grantee has been only entered on the register of members of our Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of our Company from time to time.

*(x) Restrictions on the time of grant of options*

No offer for grant of options shall be made after inside information has come to the knowledge of our Company until we have announced the information in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of our Directors for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the last date on which our Company must publish its an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no offer for grant of option may be granted.

Our Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

*(xi) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

*(xii) Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive Director) of our Company, any of our subsidiaries or any Invested Entity.

*(xiii) Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and in the event of his ceasing to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine or, if any of the events referred to in sub-paragraph (xvi) or (xvii) occur during such period.

*(xiv) Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition

with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

*(xv) Rights on breach of contract*

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and any member of our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of any member of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option scheme shall lapse as a result of (1), (2) or (3) above.

*(xvi) Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes or the relevant record date for entitlements under the scheme of arrangement, as the case may be.

*(xvii) Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such

grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

*(xviii) Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

*(xix) Adjustments to the subscription price*

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

*(xx) Cancellation of options*

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

Where our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by our Shareholders pursuant subparagraphs (iii) (cc) and (dd) above.

*(xxi) Termination of the Share Option Scheme*

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*(xxii) Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

*(xxiii) Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi);
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (cc) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

*(xxiv) Others*

- (aa) The Share Option Scheme is conditional on the Listing Committee granting the listing of and permission to deal in, such number of Shares representing the General Scheme Limit to be allotted and issued by our Company pursuant to the exercise of any options in accordance with the terms and conditions of the Share Option Scheme.



- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with prior sanction of a resolution of our Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature of options granted must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by our Shareholders in general meeting.

**(b) *Present status of the Share Option Scheme***

*(i) Approval of the Listing Committee required*

The Share Option Scheme is conditional on the Listing Committee granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options in accordance with the terms and conditions of the Share Option Scheme.

*(ii) Application for approval*

Application has been made to the Listing Committee for the listing of and permission to deal in our Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

*(iii) Grant of option*

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

*(iv) Value of options*

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables.

As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

#### 17. Estate duty, tax and other indemnities

Our Controlling Shareholders (together, the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for ourselves and as trustee for each of our present subsidiaries) (being the material contract (c) referred to in paragraph 10 above) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Listing Date; and
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2013;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 January 2014 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
  - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 January 2014; or

- (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2013 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation liabilities or claim arises or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the IRD or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2013 and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the deed of indemnity, each of the Indemnifiers has also undertaken to us that he/she/it will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from any losses arising from Third Party Payments.

## **18. Litigation**

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Company.

## **19. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately US\$5,000 and are payable by our Company.

## **20. Promoter**

- (a) Our Company does not have any promoter.
- (b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters of our Company in connection with the Global Offering or the related transactions described in this prospectus.

**21. Agency fees or commissions received**

The Hong Kong Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Underwriting Agreement. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay a placing commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. In addition, we agreed, at our sole discretion, to pay the Sole Global Coordinator a discretionary incentive fee of up to 0.5% of the aggregate Offer Price payable for the Offer Shares, including any additional Shares allotted and issued pursuant to the Over-allotment Option.

The aggregate commissions and fees (exclusive of any discretionary incentive fees), including the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, which are currently estimated to be approximately HK\$63.7 million in aggregate (based on an Offer Price of HK\$1.71 per Offer Share, being the mid-point of the stated price range of the Offer Price between HK\$1.44 and HK\$1.98 per Offer Share, and the assumption that the Over-allotment Option is not exercised) are to be borne by our Company.

**22. Sponsor**

The Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, being 10% of the Shares in issue on the Listing Date, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The Sponsor's fees payable by us in respect of the Sponsor's services as Sponsor for the Listing is HK\$3,000,000.

**23. Qualifications of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
CMB International Capital Limited	Licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities
Deloitte Touche Tohmatsu	Certified Public Accountants

Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
George T.Y. Hui	Barrister-at-law in Hong Kong
Commerce & Finance Law Offices	Qualified PRC lawyers
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Professional property valuer
Ipsos Hong Kong Limited	Industry consultant

#### **24. Consents of experts**

Each of CMB International, Deloitte Touche Tohmatsu, Conyers Dill & Pearman (Cayman) Limited, George T.Y. Hui, Commerce & Finance Law Offices, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Ipsos Hong Kong Limited has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or legal opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

#### **25. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Cap. 32 Companies (WUMP) Ordinance so far as applicable.

#### **26. Taxation of holders of Shares**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

**27. Miscellaneous**

- (a) Save as disclosed in this prospectus:
  - (i) within two years preceding the date of this prospectus:
    - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
    - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2013 (being the date to which the latest audited combined financial statements of our Group were made up); and
- (c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

**28. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the Application Forms, the written consents referred to under the sub-paragraph headed “Consents of experts” under the paragraph headed “Other information” of Appendix V to this prospectus, the statement of adjustments referred to in the paragraph below headed “Documents Available for Inspection” and certified copies of the material contracts referred to in the sub-paragraph headed “Summary of material contracts” under the paragraph headed “Further information about the business of our Company” of Appendix V to this prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40th Floor, Jardine House, 1 Connaught Place, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum of Association and the Articles;
- (b) the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus together with the statement of adjustments;
- (c) the audited financial statements of the companies now comprising our Group under the statutory requirements for each of the three years ended 31 December 2013 (or for the period since their respective dates of incorporation where it is shorter), if any;
- (d) the letters prepared by Deloitte Touche Tohmatsu on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter and valuation certificate relating to the property interests of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix III to this prospectus;
- (f) the Cayman Companies Law;
- (g) the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
- (h) the legal opinions prepared by George T.Y. Hui in respect of (1) Third Party Payment arrangements; (2) our compliance with the Companies Ordinance, Chapter 32 of the Laws of Hong Kong prior to 3 March 2014 (i.e. the Cap. 622 Companies Ordinance); and (3) our compliance to relevant laws and regulations of Hong Kong regarding our Group’s business;

- (i) the legal opinion prepared by our PRC legal advisers in respect of certain aspects of our Group in the PRC;
- (j) the industry report prepared by Ipsos Hong Kong Limited referred to in the section headed “Industry Overview” in this prospectus;
- (k) the material contracts referred to in the sub-paragraph headed “Summary of material contracts” in the paragraph headed “Further information about the business of our Company” in Appendix V to this prospectus;
- (l) the written consents referred to in the sub-paragraph headed “Consents of experts” under the paragraph headed “Other information” in Appendix V to this prospectus;
- (m) the rules of the Share Option Scheme; and
- (n) the service contracts referred to in the sub-paragraph headed “Directors” in the paragraph headed “Further information about Directors and Shareholders” in Appendix V to this prospectus.





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