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## 衍生集團(國際)控股有限公司

Hin Sang Group (International) Holding Co. Ltd.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6893)

### Announcement on Interim Results For the Six Months Ended 30 September 2014

#### RESULTS

The Board is pleased to announce the unaudited condensed consolidated interim results of the Group for the Period together with the comparative figures for the previous period as follows:

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

For the six months ended 30 September 2014

		Six months ended 30 September	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	114,673	126,239
Cost of sales		(47,760)	(58,139)
Gross profit		66,913	68,100
Other income	4	1,374	1,114
Other gains and losses	5	(584)	1,855
Selling and distribution expenses		(19,813)	(18,133)
Administrative expenses		(22,974)	(24,824)
Listing expenses		(636)	(859)
Finance costs		—	(1,158)
Profit before tax		24,280	26,095
Income tax expense	6	(4,067)	(4,874)

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2014</b>	2013
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period	7	<b>20,213</b>	21,221
Other comprehensive income/(expense)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>526</u>	<u>(188)</u>
Total comprehensive income for the period		<u><b>20,739</b></u>	<u>21,033</u>
Profit for the period attributable to owners of the Company		<u><b>20,213</b></u>	<u>21,221</u>
Total comprehensive income for the period attributable to owners of the Company		<u><b>20,739</b></u>	<u>21,033</u>
Earnings per share	9		
Basic (HK cents)		<u><b>3.37</b></u>	<u>3.54</u>
Diluted (HK cents)		<u><b>3.37</b></u>	<u>N/A</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

		As at 30 September 2014 (Unaudited) <i>HK\$'000</i>	As at 31 March 2014 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment		23,564	16,521
Prepaid lease payments		19,426	19,531
Investment property		6,625	6,548
		<u>49,615</u>	<u>42,600</u>
<b>Current assets</b>			
Inventories		15,568	12,999
Trade and other receivables	10	37,513	37,626
Bank balances and cash		54,729	65,059
		<u>107,810</u>	<u>115,684</u>
<b>Current liabilities</b>			
Trade and other payables	11	31,770	27,482
Dividend payable		—	30,000
Current tax liabilities		10,574	6,507
		<u>42,344</u>	<u>63,989</u>
<b>Net current assets</b>		<u>65,466</u>	<u>51,695</u>
<b>Net assets</b>		<u>115,081</u>	<u>94,295</u>
<b>Capital and reserves</b>			
Share capital		30,000	30,000
Reserves		85,081	64,295
<b>Total equity</b>		<u>115,081</u>	<u>94,295</u>

## NOTES

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group’s accountants’ report for the three years ended 31 March 2014 for inclusion in the prospectus of the Company dated 30 September 2014.

#### **Application of accounting policy in respect of equity-settled share-based payment transactions**

##### *Share options granted to directors and employees*

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

#### **Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)**

In the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

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

#### Six months ended 30 September 2014 (unaudited)

	Product Development Segment <i>HK\$'000</i>	Brand Development and Management Segment <i>HK\$'000</i>	Trading of Goods Segment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	<u>91,094</u>	<u>17,853</u>	<u>5,726</u>	<u>114,673</u>
Segment profit/(loss)	<u>19,749</u>	<u>3,713</u>	<u>(152)</u>	<u>23,310</u>
Interest income				<u>970</u>
Profit before tax				<u>24,280</u>

#### Six months ended 30 September 2013 (unaudited)

	Product Development Segment <i>HK\$'000</i>	Brand Development and Management Segment <i>HK\$'000</i>	Trading of Goods Segment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue				
External sales	<u>90,671</u>	<u>22,896</u>	<u>12,672</u>	<u>126,239</u>
Segment profit	<u>21,006</u>	<u>4,406</u>	<u>39</u>	<u>25,451</u>
Interest income				<u>955</u>
Gain on fair value change of held for trading investments				<u>847</u>
Finance costs				<u>(1,158)</u>
Profit before tax				<u>26,095</u>

## Geographical information

The following is an analysis of the Group's revenue from external customers based on location of operations:

	Six months ended 30 September	
	2014	2013
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Hong Kong	98,025	111,425
People's Republic of China (the "PRC")	11,048	10,225
Taiwan	5,600	4,589
	<u>114,673</u>	<u>126,239</u>

## 4. OTHER INCOME

	Six months ended 30 September	
	2014	2013
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Interest income on bank deposits	970	955
Rental income	147	—
Forfeiture of customers' deposits	62	100
Compensation from supplier	193	—
Others	2	59
	<u>1,374</u>	<u>1,114</u>

## 5. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2014	2013
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Gain on fair value change of held for trading investments	—	847
Gain on disposal of property, plant and equipment	—	40
Net foreign exchange (loss)/gain	(584)	968
	<u>(584)</u>	<u>1,855</u>

## 6. INCOME TAX EXPENSE

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current tax:		
— Hong Kong Profits Tax	<u><b>4,067</b></u>	<u>4,874</u>

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

## 7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging/(crediting):

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Amortisation of prepaid lease payments	<b>332</b>	75
Depreciation of property, plant and equipment	<b>1,289</b>	828
Reversal of write-down of inventories	<u><b>—</b></u>	<u>(487)</u>

## 8. DIVIDENDS

During the current interim period, a special dividend of HK\$30,000,000 in respect of the year ended 31 March 2014 was paid to the shareholder of the Company.

Subsequent to the end of the current interim period, the directors of the Company have determined that no dividend will be proposed in respect of the interim period.

## 9. EARNINGS PER SHARE

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	<b><u>20,213</u></b>	<u>21,221</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>600,000,000</b>	600,000,000
Effect of dilutive potential ordinary shares:		
— Share options	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>600,000,000</u></b>	<u>N/A</u>

The weighted average number of ordinary shares for the purpose of basic earnings per shares has been adjusted to reflect 300,000,000 shares issued upon capitalisation on 16 October 2014.

No diluted earnings per share is presented for the six months ended 30 September 2013 as there were no potential ordinary shares outstanding during that period.

## 10. TRADE AND OTHER RECEIVABLES

	<b>As at</b>	As at
	<b>30 September</b>	31 March
	<b>2014</b>	2014
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>31,328</b>	32,368
Prepayments to suppliers	<b>198</b>	137
Prepaid listing expenses	<b>762</b>	628
Prepaid lease payments	<b>670</b>	663
Prepayments for other expenses	<b>3,414</b>	2,562
Other deposits (mainly including rental and building management fee deposits)	<b>987</b>	993
Other receivables	<b>154</b>	275
	<b><u>37,513</u></b>	<u>37,626</u>

The Group's sales to most customers are made on cash on delivery, whilst the Group generally allows an average credit period of 60 days (with 15 days of grace period in certain cases) to certain major trade customers with established trading records.



The following is an aging analysis of the Group's trade receivables at the end of the reporting period, presented based on invoice date:

	<b>As at 30 September 2014 (Unaudited) HK\$'000</b>	<b>As at 31 March 2014 (Audited) HK\$'000</b>
0 - 30 days	11,130	14,866
31 - 60 days	11,599	7,104
61 - 90 days	7,072	8,358
Over 90 days	1,527	2,040
	<u>31,328</u>	<u>32,368</u>

#### 11. TRADE AND OTHER PAYABLES

	<b>As at 30 September 2014 (Unaudited) HK\$'000</b>	<b>As at 31 March 2014 (Audited) HK\$'000</b>
Trade payables	15,345	16,104
Receipts in advance	1,302	3,165
Accruals (including salaries and promotion expenses)	15,123	8,213
	<u>31,770</u>	<u>27,482</u>

The following is an aging analysis of the Group's trade payables at the end of the reporting period, presented based on invoice date:

	<b>As at 30 September 2014 (Unaudited) HK\$'000</b>	<b>As at 31 March 2014 (Audited) HK\$'000</b>
0 - 30 days	7,262	8,489
31 - 60 days	7,522	4,452
61 - 90 days	368	1,947
Over 90 days	193	1,216
	<u>15,345</u>	<u>16,104</u>

## 12. SHARE-BASED PAYMENTS

The Company's Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and share option scheme (the "Share Option Scheme") were adopted pursuant to a resolution passed on 25 September 2014. The Pre-IPO Share Option Scheme and the Share Option Scheme are share incentive schemes and are established to recognise and acknowledge the contributions that the eligible participants have made or may make to the Group.

The table below discloses movement of the Company's share options granted under the Pre-IPO Share Option Scheme and held by the Group's directors and employees:

	<b>Number of share options '000</b>
Granted during the period and outstanding as at 30 September 2014	
— Directors	21,600
— Employees	3,040
	<hr/>
	<b>24,640</b>
	<hr/> <hr/>

No share option was granted under the Share Option Scheme since its adoption.

In the current interim period, share options were granted on 25 September 2014. The fair value of options determined at the date of grant using the Binomial Option Pricing Model was approximately HK\$13,841,000.

The following assumptions were used to calculate the fair value of share options on 25 September 2014:

Spot price per share on grant date	HK\$1.180
Exercise price	HK\$0.826
Expected life	10 years
Expected volatility	45.44%
Dividend yield	3.52%
Risk-free interest rate	2.03%

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each interim period, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share options reserve.

### 13. LITIGATION

As at the date of this announcement, the Group was involved in the following legal proceedings:

- (a) In 2012, Hin Sang Hong Company Limited (“**Hin Sang Hong (HK)**”), a wholly owned subsidiary of the Company, discovered an infringement of its intellectual property right by Aomori (Japan) Pharmaceutical Limited, whereby the trademark and copyrights subsisting in the packing and drawings of Hin Sang Health Star (Granules) (衍生精裝七星茶顆粒沖劑) and Hin Sang Deluxe Exquisite Packing Milk Supplement (Granules) (衍生至尊雙料開奶茶顆粒沖劑) were infringed. As such, Hin Sang Hong (HK) initiated legal proceeding against Aomori (Japan) Pharmaceutical Limited in this regard for trademark infringement and/or passing off. Upon commencement of the legal action, Aomori (Japan) Pharmaceutical Limited ceased all infringement acts. As a result, the action was not pursued any further and was in the status of on hold. However, should Hin Sang Hong (HK) decide to pursue the claim further, it is required to seek leave from the Court to file a full Statement of Claim out of time, subject to a possible nominal costs award to Aomori (Japan) Pharmaceutical Limited.
- (b) On 18 May 2011, Hin Sang Hong (HK) entered into a distribution agreement with Kingdom Overseas Limited (“**Kingdom Overseas**”) pursuant to which Hin Sang Hong (HK) was appointed as the exclusive distributor in Hong Kong and Macau for three infant formula products. In July and August 2011, Hin Sang Hong (HK) issued purchase orders in respect of the infant formula products but Kingdom Overseas failed to deliver some of the products to Hin Sang Hong (HK) and therefore, in breach of the distribution agreement. Further, in February 2012, Kingdom Overseas issued a termination notice to Hin Sang Hong (HK) to terminate the distribution agreement forthwith. As such, Hin Sang Hong (HK) initiated legal proceeding against Kingdom Overseas for breach of distribution agreement and claim for loss and damages in the approximate amount of approximately HK\$54.3 million and the substantial proportion of the damages claim comes from a claim for loss of future profit due to the breach of distribution agreement by Kingdom Overseas. Likewise, Kingdom Overseas also launched a counterclaim against Hin Sang Hong (HK) for an approximate sum of HK\$51.0 million as damages for alleged loss of future profit for unable to secure an alternative distributor replacing Hin Sang Hong (HK). As at the date of this announcement, the legal proceeding was still ongoing. After seeking legal advice from the counsel representing the Group in the above legal action, the directors are of the opinion that the counterclaim made against Hin Sang Hong (HK) is unlikely to succeed, and accordingly no provision has been made in the condensed consolidated statement of financial position of the Group at 30 September 2014 in respect of the counterclaim made against Hin Sang Hong (HK).

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

The Group engages in developing, marketing, selling and distributing a wide variety of personal care products, health care products and household products under various own brands and exclusive distribution licensed brands. Approximately 85.5% of the Group's revenue for the Period was derived from Hong Kong market. According to the Report on Monthly Survey of Retail Sales — September 2014 of the Census and Statistics Department of Hong Kong, Hong Kong's retail sales of (i) medicines and cosmetics and (ii) personal care products, household goods, and other goods in supermarkets had increased from approximately HK\$22,752 million for the six months ended 30 September 2013 to approximately HK\$24,943 million\* for the Period, representing an increase of 9.6%.

\* September 2014 figure is provisional figure.

### BUSINESS REVIEW

For the six months ended 30 September 2014, the Group's revenue was approximately HK\$114.7 million, representing a decrease of 9.2% as compared to HK\$126.2 million for the same period in 2013.

During the Period, the Product Development Segment was still the largest segment which contributed approximately 79.4% of the Group's revenue while it accounted for 71.8% of the total revenue for the same period in 2013. The revenue contribution from Brand Development and Management Segment slowed down from 18.1% for the same period in 2013 to 15.6% for the Period. The Trading of Goods Segment recorded a continuous drop in revenue and its revenue contribution to the Group dropped from approximately 10.0% for the same period in 2013 to approximately 5.0% for the Period.

#### Product Development Segment

Under Product Development Segment, the Group develops and sells personal care products, health care products and household products under own brand names, mainly being “Hin Sang (衍生)”, “Beautymate (美肌の誌)” and “King's Antiseptic (殺菌王)”.

The revenue of the Segment gradually increased to approximately HK\$91.1 million for the Period from approximately HK\$90.7 million for the six months ended 30 September 2013. Such increase was mainly contributed by the growth in sales volume of our flagship products of “Hin Sang Milk Supplement (Granules) (衍生開奶茶顆粒沖劑)”, “Hin Sang Health Star (Granules) (衍生七星茶顆粒沖劑)”, “Hin Sang Supreme Cough & Cold Remedy (Granules) (衍生至尊感冒止咳顆粒沖劑)”, “Hin Sang Bao Ying Dan (衍生精製保嬰丹)” and “Hin Sang Hou Tsao San (衍生精製猴棗散)”. Such increase was the result of higher penetration of “Hin Sang (衍生)” products in the markets and the expansion of the Group's distribution network.

The Segment's profit for the Period was approximately HK\$19.7 million, representing a decrease of approximately HK\$1.3 million or 6.0% as compared to that of the six months ended 30 September 2013. The Segment profit margin for the Period is approximately 21.7% while the margin for the six months ended 30 September 2013 was approximately 23.2%.

The aggregate revenue generated from the above three major brands amounted to approximately HK\$88.7 million for the Period, representing 97.4% of the Segment's revenue while it was approximately HK\$88.8 million for the six months ended 30 September 2013, representing 97.9% of the Segment's revenue.

### **Brand Development and Management Segment**

Under the Brand Development and Management Segment, the Group sells and distributes products with exclusive distribution rights. The three major brands of the Segment are “Acene (澳雪)”, “Sewame (雪完美)” and “Vcnic (花世界)”.

The Segment recorded revenue of approximately HK\$22.9 million and HK\$17.9 million for the six months ended 30 September 2013 and 2014 respectively, representing a decrease of 22.0%. The Segment's profit for the Period is approximately HK\$3.7 million, representing a decrease of approximately HK\$693,000 or 15.7% as compared to that of the six months ended 30 September 2013. The Segment profit margin for the Period was approximately 20.8% while the margin for the six months ended 30 September 2013 was approximately 19.2%.

The total revenue of these three major brands amounted to HK\$14.2 million and HK\$11.7 million respectively for the six months ended 30 September 2013 and 2014, accounting for approximately 62.0% and 65.4% of the Segment's revenue of the respective periods.

### **Trading of Goods Segment**

Trading of Goods Segment distributes those products purchased from authorized dealers, independent traders, manufacturers or parallel importers and its contribution to total revenue and profit are small when compared with another two segments.

The Segment's revenue accounted for 10.0% and 5.0% of the Group's revenue for the six months ended 30 September 2013 and 2014 respectively. Such significant decrease was mainly due to the shift in management's focus from the Trading of Goods Segment to the Product Development Segment during the Period in order to enhance the brand image of the Group's own-branded products.

The Segment's loss for the Period is approximately HK\$152,000 while the Segment's profit was approximately HK\$39,000 for the six months ended 30 September 2013. The Segment loss margin for the Period was approximately 2.7% while the profit margin for the six months ended 30 September 2013 was approximately 0.3%.

## **HUMAN RESOURCES**

The Group had a total of 179 staff as at 30 September 2014. The employees of the Group are remunerated by way of fixed salary. The Group has devised an assessment system for its employees and the Group uses the assessment result for salary review and promotion decisions. All the staff undergoes a performance appraisal once a year. The appraisal provides the Group with an opportunity to assess each individual staff's strengths and areas for improvement, thereby enabling the Group to effectively train and develop each individual staff.

## PROSPECTS

The Group believes that the listing of the Shares on the main board of the Stock Exchange on 16 October 2014 could enhance its profile, while the net proceeds from the offer of the Shares will strengthen financial position and allow the Group to implement and execute its business plan. The Group also believes that a public listing status will increase the public profile of the Group's brands and products, as well as offer the Group access to the capital market for future business development and strengthen its competitiveness. The Group intends to implement the following principal strategies to expand its business and create value for the shareholders of the Company:

**a) To explore business collaboration opportunities with new brand proprietors**

The Group plans to expand its business in the Brand Development and Management Segment by collaborating with more new brand proprietors, which complements the expansion strategy. It intends to select new brand proprietors with production bases in Southern China, in particular the Guangdong Province, the business collaboration with new brand proprietors can (i) strengthen both the Group's portfolio of brands and licensed products and the distribution network in Hong Kong and thus help expand the distribution network to countries outside Hong Kong such as Malaysia and Singapore; (ii) expedite the penetration of the products due to the vicinity of their production bases to Hong Kong; and (iii) increase the market share in the personal care product market.

**b) To further expand the sales and distribution network for own-branded products**

The Group plans to expand the distribution network for own brands by entering into exclusive distribution agreements with distributors in other territories, mainly the PRC and other regions and countries including Taiwan, Macau, Singapore and Malaysia. The Group will continue to expand its business in the PRC market in terms of the number of distributors and its product portfolio in order to timely respond to changes in the preferences of the customers in the PRC. The Group also continues to expand the distribution of its own-branded products to other provinces in the PRC and increase the number of sales representatives to assist in the expansion of the sales network coverage.

**c) To continue enhancing brand recognition of own brands through effective marketing strategy**

The Group has developed "Hin Sang (衍生)" brand into a well-recognised brand in Hong Kong through an effective and targeted advertising, marketing strategies and continuous emphasis on product safety and quality. To further enhance the popularity of the products in Hong Kong and brand awareness and image in the PRC, the Group will continue its effective and targeted marketing efforts. The Group also plans to make use of innovative multimedia promotional channels such as social media and mobile phone applications. In addition, the Group intends to enhance the online shop which will provide a convenient ordering system for our customers.

**d) To further expand products portfolio by developing new products with suitable pharmaceutical companies**

In order to enlarge product portfolio and promote synergies among various product segments, the Group will explore opportunities to collaborate with suitable Chinese medicine institutions or pharmaceutical companies to develop new health supplements and analyse the ingredients and composition of its products.

## **FINANCIAL REVIEW**

### **Revenue**

The Group's revenue was approximately HK\$114.7 million for the Period as compared to HK\$126.2 million for the same period in 2013, representing a decrease of 9.2%. Such decrease was mainly due to the decrease in its sales of products under the Brand Development and Management Segment and the Trading of Goods Segment.

During the Period, the revenue generated from the Brand Development and Management Segment and the Trading of Goods Segment decreased by approximately HK\$5.0 million and HK\$6.9 million respectively, representing a decrease of 22.0% and 54.8% as compared to the same period in 2013. The decrease in both segments was mainly resulted from the shift in management's focus from them to the Product Development Segment.

### **Cost of sales**

The Group's cost of sales decreased by 17.9% from approximately HK\$58.1 million for the six months ended 30 September 2013 to approximately HK\$47.8 million for the Period. Such decrease was primarily due to the significant drop in purchases costs incurred under the Brand Development and Management Segment and the Trading of Goods Segment by 23.2% and 55.1% respectively as compared to that of previous period.

In relation to sales under the Product Development Segment, cost of sales slightly decreased from approximately HK\$30.6 million to approximately HK\$30.4 million. The change in cost of sales for another two business segments were in line with the corresponding fluctuation in revenue for the Period.

### **Gross profit and gross profit margin**

The Group's gross profit slightly decreased by 1.7% from approximately HK\$68.1 million for the six months ended 30 September 2013 to approximately HK\$66.9 million for the Period. However, the gross profit margin for the Period increased from 53.9% to 58.4% which was mainly due to the increase in the proportion of revenue from Product Development Segment which has a relatively high margin.

### **Other income**

The Group's other income increased from approximately HK\$1.1 million for the six months ended 30 September 2013 to approximately HK\$1.4 million for the Period, which was mainly due to the compensation from one supplier for poor quality of products of approximately HK\$193,000 and rental income from investment property of approximately HK\$147,000.

### **Other gains and losses**

Other gains and losses for the Period was loss of approximately HK\$584,000 while it was gains of approximately HK\$1.9 million for the six months ended 30 September 2013. The significant change was attributable to (i) no fair value gain on held for trading investments for the Period while it was fair value gain of approximately HK\$847,000 for the six months ended 30 September 2013; and (ii) exchange losses of approximately HK\$584,000 incurred during the Period while exchange gains was approximately HK\$968,000 for the same period in 2013.



## **Selling and distribution expenses**

The selling and distribution expenses increased by 9.3% from approximately HK\$18.1 million for the six months ended 30 September 2013 to approximately HK\$19.8 million for the Period. Such increase was mainly attributable to the increased advertising expenses relating to the extensive television commercials for the products under own brands and promotional events.

## **Administration expenses**

The administrative expenses decreased by 7.5% from approximately HK\$24.8 million for the six months ended 30 September 2013 to approximately HK\$23.0 million for the Period which was primarily attributable to (i) the decrease in research and developments expenses from approximately HK\$1.4 million for the six months ended 30 September 2013 to approximately HK\$359,000 for the Period relating to the research and development of products under the Product Development Segment and (ii) the decrease in legal and professional fees from approximately HK\$1.5 million for the six months ended 30 September 2013 to approximately HK\$1.0 million for the Period.

## **Finance costs**

The Group's finance costs decreased by 100% from approximately HK\$1.2 million for the six months ended 30 September 2013 to nil for the Period. The decrease was due to no bank borrowings incurred during the Period. After the disposal of Tai Wo Tong Pharmaceutical (Hong Kong) Company Limited on 3 July 2013, the bank borrowing of approximately HK\$70.1 million associated with Tai Wo Tong Pharmaceutical (Hong Kong) Company Limited was transferred out of the Group.

## **Taxation**

The Group's tax charge decreased by 16.6% from approximately HK\$4.9 million for the six months ended 30 September 2013 to approximately HK\$4.1 million for the Period, while the effective tax rates were 18.7% and 16.8% respectively. The decrease in tax charge was in line with the decrease in profit before tax from approximately HK\$26.1 million for the six months ended 30 September 2013 to approximately HK\$24.3 million for the Period. The decrease in effective tax rate was mainly due to the decrease of non tax-deductible expenses for the Period.

## **Profit for the Period**

As a result of the foregoing, the net profit decreased by 4.8% from approximately HK\$21.2 million for the six months ended 30 September 2013 to approximately HK\$20.2 million for the Period, while net profit margin increased from 16.8% to 17.6% for the Period.

## **Inventories**

The Group's inventories increased by 19.8% from approximately HK\$13.0 million as at 31 March 2014 to approximately HK\$15.6 million as at 30 September 2014, which was primarily due to the increase in finished products for distribution by 19.7% from approximately HK\$12.4 million as at 31 March 2014 to approximately HK\$14.8 million as at 30 September 2014. Such increase was mainly due to the increase in inventories of health care products under the Product Development Segment. The inventory turnover days improved from 56.3 days for the six months ended 30 September 2013 to 54.4 days for the Period.



## **Trade and other receivables**

The Group's trade receivables slightly decreased by 3.2% from approximately HK\$32.4 million as at 31 March 2014 to approximately HK\$31.3 million as at 30 September 2014, which was primarily attributable to the decrease in trade receivables from distributors arising from the purchase of personal care products under the Brand Development and Management Segment. As at 30 September, 2014, amount of approximately HK\$3.8 million was due from a related party and was included in trade receivables. Such amount was derived from sales of the own-branded products to Brighten Hong Limited, which is owned by brother in law of Mr. Pang (the Director). The trade receivables turnover days for the Period were 50.5 days while it were 39.8 days for the six months ended 30 September 2013.

## **Liquidity and capital resources**

The Group's cash and cash equivalents decreased by 15.9% from approximately HK\$65.1 million as at 31 March 2014 to approximately HK\$54.7 million as at 30 September 2014. As at 30 September 2014, the Group had no outstanding bank borrowings and the amount of unutilized banking facilities of approximately HK\$26.8 million. The gearing ratio (total debts divided by total equity) as at 30 September 2014 was nil (31 March 2014: nil). The current ratio (total current assets divided by current liabilities) as at 30 September 2014 was 2.55 (31 March 2014: 1.81).

## **Financial management and policy**

The Group continues to adopt prudent financing and treasury policies. All the Group's financing and treasury activities are centrally managed and controlled. Implementation of the Group's related policies is made under collective but extensive considerations on liquidity risk, financing cost and exchange rate risk.

The executive Directors, with the assistance of the group financial controller, are responsible for identifying, reviewing, evaluating and analyzing the investment opportunities of the Group. The executive Directors also regularly monitor the cash position and funding requirement of the Group.

## **Dividends**

The Board does not propose interim dividends for the six months ended 30 September 2014.

## **Contingent liabilities**

As at 30 September 2014, the Directors were not aware of any significant events that would have resulted in material contingent liabilities.

## **OTHER INFORMATION**

### **LISTING**

The Shares were listed on the main board of the Stock Exchange on 16 October 2014. The offer price was HK\$1.18 per share and 200,000,000 Shares were allotted. The net proceeds from the offer was approximately HK\$217.3 million after deducting underwriting fees and related expenses, which are intended to be applied in the manner consistent with that set out in the Company's prospectus dated 30 September 2014.

### **CORPORATE GOVERNANCE**

#### **Corporate Governance Practice**

As the Shares were not yet listed on main board of the Stock Exchange as at 30 September 2014, the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Listing Rules was not applicable to the Company for the Period.

Upon listing, the Company has adopted and complied with all the code provisions and, where applicable, the recommended best practices of CG Code as set forth in Appendix 14 of the Listing Rules as its corporate governance code of practices.

The Board and senior management of the Company commit to maintain a high standard of corporate governance, to formulate good corporate governance practice for improvement of accountability and transparency in operations, and to strengthen the internal control system from time to time so as to ensure to meet with the expectations of the shareholders of the Company.

#### **Model Code of Securities Transactions by Directors**

As the Shares were not yet listed on the main board of the Stock Exchange as at 30 September 2014, the Model Code for Securities Transactions by Directors (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules was not applicable to the Company during the Period.

Upon listing, the Company has adopted Appendix 10 “Model Code for Securities Transactions by Directors of Listed Issuers” to the Listing Rules as the code of conduct for securities transactions by the Directors (the “**Model Code**”).

### **REVIEW OF INTERIM RESULTS**

This unaudited condensed consolidated interim financial information of the Group for the six months ended 30 September 2014 has been reviewed by the Audit Committee.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

As the Shares were not yet listed on the main board of the Stock Exchange as at 30 September 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the Period.

## SHARE OPTION SCHEMES

The Company has adopted two share option schemes on 25 September 2014, namely the Pre-IPO Share Option Scheme and Share Option Scheme under the written resolutions of the sole shareholder of the Company.

### 1) Pre-IPO Share Option Scheme

The purpose of Pre-IPO Share Option Scheme is to recognise the contribution of certain employees, executives or officers of the Group made or will make to the growth of the Group and/or the listing of Shares on the Stock Exchange. The Pre-IPO Share Option Scheme is valid and effective for a period from 25 September 2014 to 15 October 2014, after which no further options will be granted. Each option gives the holder the right to subscribe for one Share. The total number of Shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme shall not in aggregate exceed 24,640,000 Shares, representing 3.1% of total number of Shares in issue as at 30 September 2014. The offer of a grant of share options shall be accepted when the offer letter has been duly signed and a consideration of HK\$1 in total has been paid by the grantee.

The exercise price per option under the Pre-IPO Share Option Scheme is HK\$0.826, being 30% discount of the offering price per Share in the initial public offer on 16 October 2014.

During the Period, total 24,640,000 options under the Pre-IPO Share Option Scheme was granted and no options was exercised. Details of the Pre-IPO Share Option Scheme has been disclosed in the Company's prospectus dated 30 September 2014.

### 2) Share Option Scheme

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that Eligible Participants (as defined below) have made or may make to the Group so as to motivate the Eligible Participants to optimize their performance and efficiency for the benefit of the Group, and attract, retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are, will or expected to be beneficial to the Group. The Share Option Scheme shall be valid and effective for a period of ten years commencing on 16 October 2014, after which no further options will be issued. Each option gives the holder the right to subscribe for one Share. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes shall not in aggregate exceed 80,000,000 Shares (10% of the Shares in issue as at the date of listing of the Shares), representing 10% of total number of issued Shares as at 30 September 2014. No option may be granted to any Eligible Participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. The offer of a grant of share options shall be accepted when the offer letter has been duly signed and a consideration of HK\$1 in total has been paid by the grantee. The exercise period of the share options granted is determinable by the Directors and ends on a date which is not later than ten years from the date of the acceptance of the offer of share options.

Eligible Participants include: (i) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company (the “Affiliate”); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

The exercise price of options shares shall not be less than the highest of: (i) the closing price of the Share as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the relevant option, which must be a business day; (ii) an amount equivalent to the average closing price of the Share as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of the Share on the date of grant.

No options have been granted since the adoption of the Share Option Scheme. Details of the Share Option Scheme has been disclosed in the Company’s prospectus dated 30 September 2014.

## DEFINITIONS

In this interim results announcement, unless the context otherwise requires, the following terms and expressions shall have the meanings set out below.

“Audit Committee”	the audit committee of the Company
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	Hin Sang Group (International) Holding Co. Ltd. 衍生集團 (國際) 控股有限公司, an exempted company incorporated with limited liability in the Cayman Islands on 28 October 2010
“Director(s)”	the director(s) of the Company
“Genwealth”	Genwealth Group Holding Company Limited (衍富集團控股有限公司), a company incorporated with limited liability on 5 October 2010 in the BVI, the issued shares of which are owned as to 90% by Mr. Pang Siu Hin and 10% by his wife, Ms. Kwan Lai Man, and is a controlling shareholder
“Group”	the Company and its subsidiaries
“Hin Sang Hong (HK)”	Hin Sang Hong Company Limited (衍生行有限公司), a company incorporated with limited liability on 13 June 1996 in Hong Kong and an indirect wholly owned subsidiary of our Company
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Period”	the six months ended 30 September 2014
“PRC” or “China”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	the Pre-IPO share option scheme adopted by the Company on 25 September 2014
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.1 each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 25 September 2014
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board  
**Hin Sang Group (International) Holding Co., Ltd.**  
**Pang Siu Hin**  
*Chairman*

Hong Kong, 28 November 2014

*As at the date of this announcement, the executive Directors are Mr. Pang Siu Hin, Ms Kwan Lai Man, the non-executive Director is Ms. Wong Wai Ling, and the independent non-executive Directors are Mr. Lee Luk Shiu, Dr. Tang Sing Hing, Kenny and Mr. Tsui Nam Hung.*