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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 2020

FINANCIAL HIGHLIGHTS

	Year ended 30 September		Change %
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	
Revenue	64,129	90,949	-29.5%
Gross profit	36,692	68,182	-46.2%
(Loss)/Profit for the period	(12,214)	70	-17,548.6%
Other comprehensive income/(expense) for the period	11,495	(107,875)	-110.7%
(Loss)/Earnings per share – Basic and diluted (<i>HK cents</i>)	(1.03)	0.74	

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 2020

		Six months ended	
		30 September	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	64,129	90,949
Cost of sales		<u>(27,437)</u>	<u>(22,767)</u>
Gross profit		36,692	68,182
Other income	5	2,936	1,080
Other gains and losses	6	(296)	(3,717)
Selling and distribution expenses		(6,577)	(13,112)
Administrative expenses		(40,167)	(47,133)
Finance costs	7	<u>(4,553)</u>	<u>(2,944)</u>
(Loss)/Profit before tax		(11,965)	2,356
Income tax expense	8	<u>(249)</u>	<u>(2,286)</u>
(Loss)/Profit for the period	9	<u>(12,214)</u>	<u>70</u>
Other comprehensive income/(expense)			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value gain/(loss) on equity instruments at fair value through other comprehensive income		5,806	(96,916)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>5,689</u>	<u>(10,959)</u>

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income/(expense) for the period	<u>11,495</u>	<u>(107,875)</u>
Total comprehensive expense for the period	<u><u>(719)</u></u>	<u><u>(107,805)</u></u>
(Loss)/Profit for the period attributable to:		
– Owners of the Company	(11,278)	8,046
– Non-controlling interests	<u>(936)</u>	<u>(7,976)</u>
	<u><u>(12,214)</u></u>	<u><u>70</u></u>
Total comprehensive income/(expense) for the period attributable to:		
– Owners of the Company	282	(97,812)
– Non-controlling interests	<u>(1,001)</u>	<u>(9,993)</u>
	<u><u>(719)</u></u>	<u><u>(107,805)</u></u>
(Loss)/Earnings per share	<i>11</i>	
Basic (<i>HK cents</i>)	<u><u>(1.03)</u></u>	<u><u>0.74</u></u>
Diluted (<i>HK cents</i>)	<u><u>(1.03)</u></u>	<u><u>0.74</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		335,436	231,528
Right-of-use assets		246,883	250,968
Investment properties		12,257	11,766
Financial assets at fair value through profit or loss		5,721	5,589
Deposits for acquisition of property, plant and equipment		–	40,789
Equity instruments at fair value through other comprehensive income	12	27,141	21,336
Deferred tax assets		122	122
		<u>627,560</u>	<u>562,098</u>
Current assets			
Inventories		18,917	10,699
Trade and other receivables	13	15,030	44,081
Financial assets at fair value through profit or loss		2,219	2,657
Tax refundable		2,669	2,842
Bank balances and cash		14,655	12,428
		<u>53,490</u>	<u>72,707</u>
Total assets		<u>681,050</u>	<u>634,805</u>

		As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
Current liabilities			
Trade and other payables	14	19,283	26,175
Contract liabilities		1,423	9,416
Bank borrowings		83,718	68,059
Lease liabilities		2,535	2,612
Current tax liabilities		1,008	967
		<u>107,967</u>	<u>107,229</u>
Net current liabilities		<u>(54,477)</u>	<u>(34,522)</u>
Total assets less current liabilities		<u>573,083</u>	<u>527,576</u>
Non-current liabilities			
Bank borrowings		229,936	182,517
Lease liabilities		6,717	7,994
		<u>236,653</u>	<u>190,511</u>
Net assets		<u><u>336,430</u></u>	<u><u>337,065</u></u>
Capital and reserves			
Share capital		109,180	109,180
Reserves		223,553	223,187
Equity attributable to owners of the Company		332,733	332,367
Non-controlling interests		3,697	4,698
Total equity		<u><u>336,430</u></u>	<u><u>337,065</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

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 Listing Rules.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 April 2020 for the preparation of the Group’s condensed consolidated financial statements.

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in the condensed consolidated financial statements.

Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 March 2021.

Application of certain accounting policies which became relevant to the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

	For the six months ended 30 September 2020 (unaudited)				
	Product Development Segment HK\$'000	Brand Development and Management Segment HK\$'000	Trading of Goods Segment HK\$'000	Healthcare Segment HK\$'000	Total HK\$'000
Type of goods and service					
Sales of healthcare products	45,324	–	–	280	45,604
Sales of personal care products	16,392	1,107	–	–	17,499
Sales of household products	758	134	–	–	892
Healthcare service	–	–	–	134	134
Total	<u>62,474</u>	<u>1,241</u>	<u>–</u>	<u>414</u>	<u>64,129</u>
Geographical markets					
Hong Kong	38,062	1,241	–	414	39,717
PRC	<u>24,412</u>	–	–	–	<u>24,412</u>
Total	<u>62,474</u>	<u>1,241</u>	<u>–</u>	<u>414</u>	<u>64,129</u>
Timing of revenue recognition					
A point of time	<u>62,474</u>	<u>1,241</u>	<u>–</u>	<u>414</u>	<u>64,129</u>

For the six months ended 30 September 2019 (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>	Healthcare Segment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Type of goods and service					
Sales of healthcare products	86,663	–	–	329	86,992
Sales of personal care products	741	1,549	–	–	2,290
Sales of household products	191	482	–	–	673
Healthcare service	–	–	–	994	994
Total	<u>87,595</u>	<u>2,031</u>	<u>–</u>	<u>1,323</u>	<u>90,949</u>
Geographical markets					
Hong Kong	59,339	2,031	–	329	61,699
PRC	<u>28,256</u>	–	–	<u>994</u>	<u>29,250</u>
Total	<u>87,595</u>	<u>2,031</u>	<u>–</u>	<u>1,323</u>	<u>90,949</u>
Timing of revenue recognition					
A point of time	<u>87,595</u>	<u>2,031</u>	<u>–</u>	<u>1,323</u>	<u>90,949</u>

4. SEGMENT INFORMATION

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

Six months ended 30 September 2020 (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>	Healthcare Segment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue					
External sales	<u>62,474</u>	<u>1,241</u>	<u>-</u>	<u>414</u>	<u>64,129</u>
Segment profit/(loss)	<u>(3,259)</u>	<u>480</u>	<u>-</u>	<u>(1,887)</u>	<u>(4,666)</u>
Interest income					54
Loss arising on financial assets measured at fair value through profit or loss					(151)
Unallocated expenses					(2,649)
Finance costs					<u>(4,553)</u>
Loss before tax					<u>(11,965)</u>

Six months ended 30 September 2019 (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>	Healthcare Segment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue					
External sales	<u>87,595</u>	<u>2,031</u>	<u>-</u>	<u>1,323</u>	<u>90,949</u>
Segment profit/(loss)	<u>23,337</u>	<u>(138)</u>	<u>-</u>	<u>(13,475)</u>	9,724
Interest income					546
Loss arising on financial assets measured at fair value through profit or loss					(1,302)
Unallocated expenses					(3,668)
Finance costs					<u>(2,944)</u>
Profit before tax					<u>2,356</u>

5. OTHER INCOME

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income on bank deposits	54	546
Rental income	107	300
Government grants	2,531	–
Others	244	234
	<u>2,936</u>	<u>1,080</u>

6. OTHER GAINS AND LOSSES

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss arising on financial assets measured at fair value through profit or loss	(151)	(1,302)
Loss on disposal of property, plant and equipment	–	(2,248)
Net foreign exchange loss	(145)	(167)
	<u>(296)</u>	<u>(3,717)</u>

7. FINANCE COSTS

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	4,327	2,549
Interest on lease liabilities	226	395
	<u>4,553</u>	<u>2,944</u>

8. INCOME TAX EXPENSE

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
– Hong Kong Profits Tax	237	2,238
– PRC Enterprise Income Tax	12	48
	<u>249</u>	<u>2,286</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the period.

9. (LOSS)/PROFIT FOR THE PERIOD

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

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	5,926	10,860
Depreciation of right-of-use assets	5,866	3,714

10. DIVIDENDS

No dividends were paid, declared or proposed during the interim period (2019: Nil). The Directors have determined that no dividend will be paid in respect of the interim period (2019: Nil).

11. (LOSS)/EARNINGS PER SHARE

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

	Six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/Earnings		
(Loss)/Earnings for the purpose of basic and diluted (loss)/earnings per share((Loss)/Profit for the period attributable to owners of the Company)	<u><u>(11,278)</u></u>	<u><u>8,046</u></u>
Number of shares		
Weighted average number of ordinary shares for the purpose of (loss)/basic earnings per share	1,091,796,000	1,093,681,246
Effect of dilutive potential ordinary shares:		
– Share options	<u>–</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<u><u>1,091,796,000</u></u>	<u><u>1,093,681,246</u></u>

The computation of diluted loss per share for the six months ended 30 September 2020 does not assume the exercise of the Company's share options since their assumed exercise would result in a decrease in loss per share.

The computation of diluted earnings per share for the six months ended 30 September 2019 does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for the period.

12. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at	As at
	30 September	31 March
	2020	2020
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong	<u><u>27,141</u></u>	<u><u>21,336</u></u>

Included in equity securities listed in Hong Kong above as at 30 September 2020 is the Group's investment in Fullshare, with a carrying amount of approximately HK\$20,784,000. The investment represents approximately 0.6% holding of the ordinary shares of Fullshare.

13. TRADE AND OTHER RECEIVABLES

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Trade receivables	3,857	17,507
Less: Allowance for credit losses	<u>(1,196)</u>	<u>(1,196)</u>
	2,661	16,311
Prepayments to suppliers	–	2,481
Prepayments for other expenses	3,593	2,248
Other deposits (mainly including rental and building management fee deposits)	1,237	1,856
Value-added tax recoverable	7,202	18,963
Other receivables	<u>337</u>	<u>2,222</u>
	<u>15,030</u>	<u>44,081</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 net of allowance for credit losses at the end of the reporting period, presented based on invoice date:

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
0–30 days	663	5,062
31–60 days	153	8,668
61–90 days	967	2,410
Over 90 days	<u>878</u>	<u>171</u>
	<u>2,661</u>	<u>16,311</u>

14. TRADE AND OTHER PAYABLES

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Trade payables	7,573	14,386
Accruals (mainly including salaries and advertising expenses)	<u>11,710</u>	<u>11,789</u>
	<u>19,283</u>	<u>26,175</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:

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
0-30 days	3,438	12,468
31-60 days	1,920	1,309
61-90 days	84	-
Over 90 days	<u>2,131</u>	<u>609</u>
	<u>7,573</u>	<u>14,386</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is principally engaged in the marketing, selling and manufacturing of healthcare products primarily targeting at children, among which “Hin Sang (衍生)” has been a long established reputable brand. To align with consumers’ trend, the Group continues to expand the e-commerce business through electronic platforms. To leverage on existing resources to increase profit, the Group also trades in skin care, personal care and slimming products of reputable brands. It is also developing its business in mother-infant Chinese medical healthcare as well as diagnosis and treatment services projects.

For the Period, the Group’s revenue was approximately HK\$64.1 million, representing a decrease of approximately 29.5% as compared to approximately HK\$90.9 million for the same period in 2019. The Group has four business segments classified by their ownership, licensing rights and services rendered. During the Period, the Product Development Segment, selling the Group’s own brand products with a relatively high gross profit margin, was still the largest segment of the Group which contributed approximately 97.5% (2019: 96.3%) of the Group’s revenue. On the other hand, the revenue contribution from the Brand Development and Management Segment decreased from approximately 2.2% of the total revenue for the same period in 2019 to approximately 1.9% of the total revenue for the Period. No revenue generated from the Trading of Goods Segment for the Period (2019: Nil). Healthcare Segment, being in start-up stage, only accounted for approximately 0.6% (2019: 1.5%) of the total revenue for the Period.

The Group’s business operations are mainly based in Hong Kong, though its products are distributed through distributors appointed in the PRC and Macau. Revenue generated from Hong Kong market for the Period recorded approximately HK\$39.7 million (2019: HK\$61.7 million), representing approximately 61.9% of the total revenue for the Period (2019: 67.8%). On the other hand, revenue generated from the PRC market for the Period recorded approximately HK\$24.4 million (2019: HK\$29.3 million), representing approximately 38.1% of the total revenue for the Period (2019: 32.2%). The revenue generated from sales in Hong Kong decreased due to the decrease of tourists from PRC because of the outbreak of the COVID-19 pandemic in Hong Kong. According to the statistics of Hong Kong Tourism Board, the number of PRC tourists from January to September 2020 decreased by 92.7% over the same period in 2019. The revenue generated from sales in the PRC decreased also due to the outbreak of COVID-19.

Product Development Segment

Under the Product Development Segment, the Group develops and sells healthcare products, personal care products and household products under its own brand names, mainly being “Hin Sang (衍生)”, “Tai Wo Tong (太和堂)”, “Shuang Long (雙龍)” and “King’s Antiseptic (殺菌王)”. The Group started developing the “Hin Sang (衍生)” brand in 2004 mainly for its health supplements. “Tai Wo Tong (太和堂)” was developed in 2012 mainly for the Group’s proprietary Chinese medicine category. With a view to further enhancing brand recognition of the Group’s own brands, the Group launched several products during 2020, including but not limited to “Hin Sang Daily Appetite Probiotic Formula for Kids (Granules) (衍生開胃樂兒童益生菌沖劑)”, “Hin Sang Pipa Juhong Honey for Kids (衍生小兒枇杷橘紅蜜)” and “Hin Sang Appetite Support for Kids (Syrup) (衍生小兒開胃樂十味佛手露)”.

The revenue of this segment was approximately HK\$62.5 million for the Period, represented a decrease of approximately 28.7% comparing to approximately HK\$87.6 million for the same period in 2019. This segment’s loss for the Period was approximately HK\$3.3 million, representing an decrease of approximately HK\$26.6 million or approximately 114% as compared with the same period in 2019, which was mainly due to the impact of the COVID-19 pandemic on the revenue generated from sales in Hong Kong and PRC. This segment’s negative profit margin for the Period was approximately 5.2% while the profit margin for the six months ended 30 September 2019 was approximately 26.6%.

Brand Development and Management Segment

The Group has a proven history of managing and developing a number of brands for its brand proprietors (who are mainly manufacturers and brand proprietors of the products) in respect of their personal care products mainly in the Hong Kong market since 1999. The Group entered into an exclusive distribution agreement with each of the brand proprietors and provided them with one-stop marketing, sales and distribution, logistic and delivery services for their branded products.

Amongst the products managed and developed by the Group for the brand proprietors, the major brands are “See Young (滋源)”, “Pahmi (芭菲)”, “Vcnic (花世界)”, “Zici (滋采)” and “Sunew (閃新)”. The revenue of this segment was approximately HK\$1.2 million for the Period, represented a decrease of approximately 38.9% comparing to approximately HK\$2.0 million for the same period in 2019. Such decrease was mainly due to the shift of focus by the management of the Group to the Product Development Segment during the Period in order to enhance the brand image of the Group’s own-branded products. This segment recorded a profit of approximately HK\$0.5 million for the Period while a loss of approximately 138,000 was recorded for the same period in 2019.

Trading of Goods Segment

The Group has served its trade customers with high quality products sourced from authorized dealers and overseas suppliers. Products within this segment with low profit margin will be phased out, and more resources will be put into Product Development Segment which is expected to yield higher profit margin.

There are no revenue and profit of this segment for the Period and for the same period in 2019, as the management of the Group focused on the Product Development Segment during the Period.

Healthcare Segment

Healthcare segment provides different types of healthcare related services and products in Hong Kong and the PRC for mothers and children by establishment of clinics with medical treatment and consultation by experienced Chinese physician who specialized in mother-infant Chinese medical healthcare.

The revenue of this segment was approximately HK\$414,000 for the Period, represented a decrease of approximately 68.7% comparing to approximately HK\$1.3 million for the same period in 2019. Due to cessation of business of certain operating subsidiaries in Nanjing during the Period, this segment's loss for the Period was approximately HK\$1.89 million, comparing loss of approximately HK\$13.5 million for the same period in 2019.

HUMAN RESOURCES

The Group had a total of 314 staff as at 30 September 2020. The remuneration of the employees consist of a fixed salary and performance-based sales commissions. The Group has developed a performance appraisal system to assess employees on an annual basis for salary review and making promotion decisions. The appraisal provides the Group with an opportunity to assess each individual staff and provide effective training. The Group considers employees as important assets and being the key to account for sustainable business growth.

PROSPECTS

The Group is confident that Hong Kong market can still provide a stable platform for its business to expand. The Group continues its effort in new product development in order to enrich health supplements portfolio and enhance the brand image as being a specialist in providing health supplements. The Group ensures that only those products with high sales volume potential should be retained in its product portfolio. At the same time, the Group will also focus on China's market development, especially in the health supplement market for children. The Group believes that this market will be greatly benefited by the launch of China's "two-child" policy. To seize this opportunity, the Group will continue to expand its distribution network by recruiting additional distributors (especially distributors and sales channels in China) and put more resources to promote corporate image in order to expand its customer base.

The Group has outlined the following strategies for its future business development, with caution but aim to creating values for the Shareholders:

(a) To continue enhancing brand recognition of the Group's own brands

The Group has developed the "Hin Sang (衍生)" brand into a well-recognised brand in Hong Kong through an effective targeted advertising program which is well-positioned emphasizing on product safety and quality.

The Group continued focusing on and applying its brand strategies of multichannel marketing and diverse product portfolios. The Group adopted a market oriented research and product development strategy to meet evolving customer demands and needs while achieving rapid growth. The Group's new product development initiative for the coming year will focus on developing more products in mother and children health supplements in Hong Kong and the PRC.

(b) To expand the manufacturing arm of the Group

The Group plans to enhance the production efficiency of its own brand products in order to capture future opportunities. The Group constructed a production plant for manufacturing health supplements in Yunfu City of the Guangdong Province, the PRC, aiming to reduce the product cost by self-production rather than Original Equipment Manufacturer ("OEM") to outside supplier, and increase efficiency and attaining more stringent quality control on its own brand healthcare products. The construction of the production plant was completed on 30 April 2020 and it has started production on 19 September 2020.

(c) To expand e-commerce for own-branded products

The Group will continue to enhance its e-commerce platform which focus on online sales of the products under “Hin Sang (衍生)”, through which customers, particularly those in the PRC can place orders online and enjoy home delivery services. Due to the gradual popularity of online shopping, especially in the PRC market, revenue from e-commerce platforms accounted for approximately HK\$17.8 million (2019: HK\$8.9 million) of the total revenue of the Group for the Period. The Group will continue to introduce more high quality health supplements on online platforms to expand our product portfolio, market scale and brand recognition.

FINANCIAL REVIEW

Revenue

The Group’s revenue was approximately HK\$64.1 million for the Period as compared to HK\$90.9 million for the same period in 2019, representing a decrease of approximately 29.5%. Such decrease was mainly due to the decrease in its sales of products under the Brand Development and Management Segment and Trading of Goods Segment.

During the Period, the revenue generated from the Product Development Segment decreased by approximately HK\$25.1 million, representing a decrease of approximately 28.7% as compared to the same period in 2019. The revenue generated from the Brand Development and Management Segment decreased by approximately HK\$0.8 million representing a decrease of approximately 38.9% as compared to the same period in 2019. The decrease in revenue in the segment was resulted from the shift in focus of the management of the Group to the Product Development Segment.

Cost of sales

The Group’s cost of sales increased by 20.5% from approximately HK\$22.8 million for the six months ended 30 September 2019 to approximately HK\$27.4 million for the Period. The reason was primarily due to the write down of inventories by approximately HK\$2.5 million for the six months ended 30 September 2020.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 46.2% from approximately HK\$68.2 million for the six months ended 30 September 2019 to approximately HK\$36.7 million for the Period. The gross profit margin for the Period decreased from approximately 75.0% to 57.2% which was resulted from increase in the cost of sales of Product Development Segment as mentioned above.

Other income

The Group's other income increased from approximately HK\$1.1 million for the six months ended 30 September 2019 to approximately HK\$2.9 million for the Period, which was mainly due to the obtain of subsidy from HKSAR government's Employment Support Scheme of approximately HK\$2.5 million.

Other gains and losses

Other gains and losses for the Period recorded a loss of approximately HK\$0.3 million compared to approximately HK\$3.7 million for the six months ended 30 September 2019. The change was attributable to the reduction of fair value loss of approximately HK\$1.2 million for financial assets measured at fair value through profit and loss for the Period as compared to that for the six months ended 30 September 2019.

Selling and distribution expenses

The selling and distribution expenses decreased by approximately 49.8% from approximately HK\$13.1 million for the six months ended 30 September 2019 to approximately HK\$6.6 million for the Period. Such change was due to decrease in media advertising expense in Hong Kong market and the trade promotional expenses.

Administrative expenses

The administrative expenses decreased by approximately 14.8% from approximately HK\$47.1 million for the six months ended 30 September 2019 to approximately HK\$40.2 million for the Period. Such change was mainly due to the cessation of business of certain operating subsidiaries in Nanjiang during the Period.

Taxation

The Group's income tax expense decreased from approximately HK\$2.3 million for the six months ended 30 September 2019 to approximately HK\$0.2 million for the Period. The decrease in income tax expense was in line with the decrease in assessable profits in Hong Kong for the Period compared to that for the six months ended 30 September 2019.

(Loss)/Profit for the Period

During the Period, the Group incurred net loss of approximately HK\$12.2 million compared with net profit of approximately HK\$70,000 for the six months ended 30 September 2019.

Other comprehensive income

During the Period, the Group has recorded a fair value gain on equity instruments at fair value through other comprehensive income of approximately HK\$5.8 million.

Equity instruments at fair value through other comprehensive income

The Group held these equity securities for medium to long term purpose, and it represented investment in two listed equity securities which are stated at fair value.

The first listed equity security represents 118,765,000 shares in Fullshare Holdings Limited (“**Fullshare**”) (stock Code: 00607). There was no addition or disposal of the shares of Fullshare during the Period. Fullshare is principally engaged in property, tourism, investment and financial services, healthcare and education and new energy businesses. As at 30 September 2020, the fair value of these shares amounted to approximately HK\$20.8 million (31 March 2020: HK\$14.3 million), with the fair value gain of approximately HK\$6.5 million was recognised as other comprehensive income for the Period, and these shares represented approximately 0.6% of the issued ordinary shares of Fullshare as at 30 September 2020. The carrying amount of these shares represented approximately 3.1% of the total assets of the Group as at 30 September 2020. During the Period, no dividend income from Fullshare was recognised in the profit or loss (2020: Nil).

The second listed equity security represents 45,411,600 shares in Nanjing Sinolife United Company Limited (“**Nanjing Sinolife**”) (stock code: 3332). There was no addition or disposal of the shares of Nanjing Sinolife during the Period. Nanjing Sinolife is principally engaged in the manufacturing and sale of nutritional supplements and the trading of packaged health food products in the PRC, Australia and New Zealand. As at 30 September 2020, the fair value of these shares amounted to approximately HK\$6.3 million (31 March 2020: HK\$7.1 million), with an fair value loss of approximately HK\$0.7 million recognised as other comprehensive expense for the Period, and these shares represented approximately 4.8% of the issued ordinary shares of Nanjing Sinolife as at 30 September 2020. During the Period, no dividend income from Nanjing Sinolife was recognised in the profit or loss (2020: Nil).

The Group will continue to hold these equity securities, unless there are changes in its investment strategy or potential opportunities in realising its existing investments in securities arise. The Group's objective to optimise the returns from its equity securities and create value for the Shareholders.

Inventories

The Group's inventories increased by approximately 76.8% from approximately HK\$10.7 million as at 31 March 2020 to approximately HK\$18.9 million as at 30 September 2020, which was primarily due to the increase in finished goods for distribution by approximately 43.7% from approximately HK\$8.7 million as at 31 March 2020 to approximately HK\$12.5 million as at 30 September 2020. The inventory turnover days increased from 54.6 days for the year ended 31 March 2020 to 98.5 days for the Period.

Trade and other receivables

The Group's trade receivables decreased by approximately 83.7% from approximately HK\$16.3 million as at 31 March 2020 to approximately HK\$2.7 million as at 30 September 2020. The trade receivables turnover days decreased from 35.1 days for the year ended 31 March 2020 to 27.0 days for the Period.

Trade and other payables

The Group's trade payables decreased by approximately 47.4% from approximately HK\$14.4 million as at 31 March 2020 to approximately HK\$7.6 million as at 30 September 2020. The trade payables turnover days increased from 63.4 days for the year ended 31 March 2020 to 73.0 days for the Period.

Liquidity, gearing ratio and capital structure

The Group's bank balances and cash were mainly denominated in HKD and RMB, the balances were increased by approximately 17.9% from approximately HK\$12.4 million as at 31 March 2020 to approximately HK\$14.7 million as at 30 September 2020. As at 30 September 2020, the Group had HK\$313.7 million bank borrowings; and the amount of unutilised banking facilities was approximately HK\$97.2 million. The gearing ratio (total debts divided by total equity) as at 30 September 2020 was 1.0 (31 March 2020: 0.7). The current ratio (total current assets divided by total current liabilities) as at 30 September 2020 was 0.5 (31 March 2020: 0.7).

Contingent liabilities

As at 30 September 2020, the Directors were not aware of any significant events that would have resulted in material contingent liabilities (31 March 2020: Nil).

Charges on the Group's assets

As at 30 September 2020, the carrying value of the assets of the Group were pledged in favor of banks was approximately HK\$488.2 million (31 March 2020: HK\$452.5 million).

Capital commitments

As at 30 September 2020, the Group had no capital commitments in respect of the acquisition of property, plant and equipment (31 March 2020: HK\$38.2 million).

Financial management and policy

The Group continues to adopt prudent financing and treasury policies. The Group's entire 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 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 requirements of the Group.

Interim dividend

The Board has resolved not to pay an interim dividend for the six months ended 30 September 2020.

Material Acquisition and Disposals and Significant Investments

The Group had no significant investments, material acquisition or disposal during the Period.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, neither the Company nor any of its subsidiaries has purchased, sold and redeemed any of the Shares.

SPECIFIC PERFORMANCE OBLIGATION OF THE CONTROLLING SHAREHOLDER

Reference is made to the announcement of the Company dated 15 July 2019. The Company's indirect wholly-owned subsidiary, Hin Sang Hong Company Limited ("**HSH**"), as borrower and the Company as guarantor had entered into a facility letter (the "**Facility Letter**") with a bank as lender, pursuant to which the Lender has agreed to make available an uncommitted instalment loan, an uncommitted revolving loan facility and an uncommitted corporate tax loan in an aggregate amount of up to HK\$19.9 million to HSH for a term of up to 5 years.

Pursuant to the Facility Letter, the Company and HSH have undertaken to ensure that Mr. Pang Siu Hin ("**Mr. Pang**") and Ms. Kwan Lai Man ("**Ms. Kwan**"), the controlling shareholders of the Company, shall have the single largest shareholding interest (directly or indirectly) in the issued share capital of the Company. A breach of this specific performance obligation will constitute an event of default under the Facility Letter and upon which all accrued interest and any other sums payable under the Facility Letter shall be immediately due and payable.

On 24 July 2020, HSH has repaid all outstanding amounts under the Facility Letter and its obligations under the Facility Letter have been fully discharged.

CORPORATE GOVERNANCE

Corporate Governance Practice

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

Save for the below deviation, the Company has adopted and complied with all the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set forth in Appendix 14 to the Listing Rules as its corporate governance code of practices.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Pang is the chairman and the chief executive officer of the Company. In view that Mr. Pang is one of the co-founders of the Group and has been operating and managing the Group since 1996, the Board believes that it is in the best interest of the Group to have Mr. Pang taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

Code provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Yuen Chi Ping, the non-executive Directors, was unable to attend the annual general meeting of the Company held on 29 September 2020 due to suspension of duties.

Model Code of Securities Transactions by Directors

The Company has adopted Appendix 10 “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) to the Listing Rules as the code of conduct for securities transactions by the Directors. In response to a specific enquiry made by the Company, all Directors confirmed that they complied with the Model Code during the Period.

REVIEW OF INTERIM RESULTS

This unaudited condensed consolidated interim financial information of the Group for the Period has been reviewed by the Audit Committee.

DEFINITIONS

In this 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
“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

“Group”	the Company and its subsidiaries
“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 2020
“PRC” or “China”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.1 each in the share capital of the Company
“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, 27 November 2020

As at the date of this announcement, the executive Directors are Mr. Pang Siu Hin and Ms. Kwan Lai Man, the non-executive Directors are Ms. Wong Wai Ling and Mr. Yuen Chi Ping (suspension of duties), and the independent non-executive Directors are Mr. Lau Chi Kit, Mr. Lee Luk Shiu and Dr. Tang Sing Hing, Kenny.