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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)

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2018**

#### **RESULTS**

The Board is pleased to announce the consolidated results of Hin Sang Group (International) Holding Co. Ltd. and its subsidiaries for the year ended 31 March 2018 together with the comparative figures for the year ended 31 March 2017 as follows:

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

*For the year ended 31 March 2018*

		<b>2018</b>	2017
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Revenue	3	<b>188,550</b>	201,815
Cost of sales		<b>(57,375)</b>	(68,572)
Gross profit		<b>131,175</b>	133,243
Other income	4	<b>6,409</b>	5,141
Other gains and losses	5	<b>(11,587)</b>	(6,676)
Selling and distribution expenses		<b>(37,854)</b>	(41,006)
Administrative expenses		<b>(87,082)</b>	(77,679)
Finance costs	6	<b>–</b>	(8)

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit before tax		<b>1,061</b>	13,015
Income tax expense	7	<u><b>(8,282)</b></u>	<u>(4,707)</u>
<b>(Loss)/Profit for the year</b>	<b>8</b>	<u><b>(7,221)</b></u>	<u>8,308</u>
<b>Other comprehensive income/(expense)</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>15,417</b>	(3,980)
Fair value gain on available-for-sale investments		<b>91,728</b>	8,314
Reclassification adjustment on impairment of available-for-sale investments		<u><b>16,348</b></u>	<u>–</u>
		<u><b>123,493</b></u>	<u>4,334</u>
<b>Total comprehensive income for the year</b>		<u><b>116,272</b></u>	<u>12,642</u>
<b>Profit/(Loss) for the year attributable to:</b>			
– Owners of the Company		<b>530</b>	9,798
– Non-controlling interests		<u><b>(7,751)</b></u>	<u>(1,490)</u>
		<u><b>(7,221)</b></u>	<u>8,308</u>
<b>Total comprehensive income/(expense) for the year attributable to:</b>			
– Owners of the Company		<b>120,216</b>	14,094
– Non-controlling interests		<u><b>(3,944)</b></u>	<u>(1,452)</u>
		<u><b>116,272</b></u>	<u>12,642</u>
<b>Earnings per share</b>			
	<b>9</b>		
– Basic (HK cents)		<u><b>0.05</b></u>	<u>0.96</u>
– Diluted (HK cents)		<u><b>0.05</b></u>	<u>0.95</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2018

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>125,584</b>	117,399
Prepaid lease payments		<b>53,728</b>	30,268
Intangible assets		–	1,548
Deposit and prepayments for life insurance policies		<b>5,113</b>	4,954
Deposits for acquisition of property, plant and equipment		<b>6,441</b>	2,871
Available-for-sale investments		<b>573,392</b>	408,552
		<u><b>764,258</b></u>	<u>565,592</u>
<b>Current assets</b>			
Inventories		<b>9,590</b>	8,899
Trade and other receivables	<i>11</i>	<b>48,636</b>	33,562
Held for trading investments		<b>8,986</b>	–
Tax refundable		<b>14</b>	2,983
Bank balances and cash		<b>186,030</b>	288,851
		<u><b>253,256</b></u>	<u>334,295</u>
<b>Total assets</b>		<u><b>1,017,514</b></u>	<u>899,887</u>
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>30,304</b>	28,937
Current tax liabilities		<b>3,399</b>	395
		<u><b>33,703</b></u>	<u>29,332</u>
<b>Net current assets</b>		<u><b>219,553</b></u>	<u>304,963</u>
<b>Total assets less current liabilities</b>		<u><b>983,811</b></u>	<u>870,555</u>
<b>Capital and reserves</b>			
Share capital		<b>109,351</b>	109,012
Reserves		<b>828,421</b>	725,573
Equity attributable to owners of the Company		<b>937,772</b>	834,585
Non-controlling interests		<b>46,039</b>	35,970
<b>Total equity</b>		<u><b>983,811</b></u>	<u>870,555</u>

## NOTES

### 1. BASIS OF PREPARATION

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

### 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

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

### 3. REVENUE AND SEGMENT INFORMATION

The following is an analysis of the Group’s revenue:

	2018 <i>HK\$’000</i>	2017 <i>HK\$’000</i>
Sales of goods	187,989	201,815
Provision of healthcare services	<u>561</u>	<u>–</u>
	<u><b>188,550</b></u>	<u><b>201,815</b></u>

Information reported to the Board of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Specifically, the Group's reportable and operating segments under "HKFRS 8 *Operating Segments*" are as follows:

1. Product Development Segment – sales of products developed by the Group under own brands
2. Brand Development and Management Segment – sales and distribution of products with exclusive distribution rights
3. Trading of Goods Segment – sales and distribution of products purchased from authorised dealers, independent traders, manufacturers or parallel importers
4. Healthcare Segment – development of mother and child related health products, hospital, medical center and related services

### Segment revenue and results

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

#### For the year ended 31 March 2018

	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>
<b>Revenue</b>					
External sales	<u>180,574</u>	<u>6,341</u>	<u>700</u>	<u>935</u>	<u>188,550</u>
Segment profit/(loss)	<u>36,784</u>	<u>573</u>	<u>(71)</u>	<u>(15,775)</u>	21,511
Interest income					3,581
Dividend income					2,013
Loss on fair value change of held for trading investments					(994)
Impairment loss on available-for-sale investments					(16,348)
Unallocated expenses					<u>(8,702)</u>
Profit before tax					<u>1,061</u>

For the year ended 31 March 2017

	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>
<b>Revenue</b>					
External sales	<u>178,931</u>	<u>19,042</u>	<u>3,842</u>	<u>-</u>	<u>201,815</u>
Segment profit/(loss)	<u>24,242</u>	<u>(2,562)</u>	<u>(371)</u>	<u>(3,801)</u>	17,508
Interest income					4,655
Unallocated expenses					(9,140)
Finance costs					<u>(8)</u>
Profit before tax					<u>13,015</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represents the profit earned by/loss from each segment without allocation of corporate expenses, interest income and finance costs. This is the measure reported to the Board for the purposes of resource allocation and assessment of segment performance.

## Segment assets and liabilities

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

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
<b>Segment assets</b>		
Product Development Segment	<b>212,715</b>	182,302
Brand Development and Management Segment	<b>1,626</b>	4,098
Trading of Goods Segment	<b>200</b>	456
Healthcare Segment	<b>29,381</b>	7,635
	<hr/>	<hr/>
Total segment assets	<b>243,922</b>	194,491
Unallocated	<b>773,592</b>	705,396
	<hr/>	<hr/>
Consolidated assets	<b>1,017,514</b>	899,887
	<hr/> <hr/>	<hr/> <hr/>
<b>Segment liabilities</b>		
Product Development Segment	<b>27,463</b>	26,968
Brand Development and Management Segment	<b>1,011</b>	1,780
Trading of Goods Segment	<b>172</b>	76
Healthcare Segment	<b>1,658</b>	113
	<hr/>	<hr/>
Total segment liabilities	<b>30,304</b>	28,937
Unallocated	<b>3,399</b>	395
	<hr/>	<hr/>
Consolidated liabilities	<b>33,703</b>	29,332
	<hr/> <hr/>	<hr/> <hr/>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than available-for-sale investments, bank balances and cash, deposit and prepayments for life insurance policies, held for trading investments and tax refundable.
- all liabilities are allocated to operating segments other than current tax liabilities.

## Other segment information

For the year ended 31 March 2018

	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>
<i>Amounts included in the measure of segment profit or loss or segment assets:</i>					
Addition to non-current assets	31,679	11	1	11,629	43,320
Amortisation of intangible assets	1,548	-	-	-	1,548
Amortisation of prepaid lease payments	1,360	-	-	-	1,360
Depreciation of property, plant and equipment	7,983	105	12	940	9,040
Loss on disposal of property, plant and equipment	68	-	-	-	68
	<u>68</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68</u>

For the year ended 31 March 2017

	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>
<i>Amounts included in the measure of segment profit or loss or segment assets:</i>					
Addition to non-current assets	83,046	681	138	1,934	85,799
Amortisation of intangible assets	1,932	-	-	-	1,932
Amortisation of prepaid lease payments	954	-	-	-	954
Depreciation of property, plant and equipment	6,139	235	48	9	6,431
Gain on fair value change of investment property	729	-	-	-	729
Gain on disposal of property, plant and equipment	94	3	-	-	97
Reversal of write-down of inventories	522	-	-	-	522
	<u>522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>522</u>



## Geographical information

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC") and Taiwan.

Information about the Group's revenue from external customers is presented based on location of its operations. Information about the Group's non-current assets (excluding available-for-sale investments and deposit and prepayments for life insurance policies) is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	145,912	155,327	101,018	106,367
PRC	41,006	42,161	84,735	45,645
Taiwan	1,632	4,327	–	74
	<u>188,550</u>	<u>201,815</u>	<u>185,753</u>	<u>152,086</u>

## Information about major customers

Revenue from customers for the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A <sup>1</sup>	33,064	36,843
Customer B <sup>1</sup>	<u>19,367</u>	<u>21,701</u>

<sup>1</sup> Revenue from Product Development Segment and Brand Development and Management Segment.

#### 4. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest income on bank deposits	3,363	4,014
Interest income on deposit and prepayments for life insurance policies	218	217
Interest income on loan receivables	–	424
Consultancy income	307	–
Dividend income	2,013	–
Rental income	–	199
Forfeiture of customers' deposits	351	199
Others	157	88
	<u>6,409</u>	<u>5,141</u>

#### 5. OTHER GAINS AND LOSSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Gain on fair value change of investment property	–	729
Loss on fair value change of held for trading investments	(994)	–
(Loss)/Gain on disposal of property, plant and equipment	(68)	97
Impairment loss on available-for-sale investments	(16,348)	–
Net foreign exchange gain/(loss)	5,823	(7,502)
	<u>(11,587)</u>	<u>(6,676)</u>

## 6. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on bank loans	<u><u>–</u></u>	<u><u>8</u></u>

## 7. INCOME TAX EXPENSE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax		
– Current year	7,486	3,646
– Under provision in prior year	<u>796</u>	<u>666</u>
	8,282	4,312
PRC Enterprise Income Tax		
– Current year	<u>–</u>	<u>395</u>
Total income tax recognised in profit or loss	<u><u>8,282</u></u>	<u><u>4,707</u></u>

Hong Kong Profits Tax has been provided at 16.5% on the estimated assessable profits arising in or derived from Hong Kong for both years.

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 both years.

## 8. (LOSS)/PROFIT FOR THE YEAR

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Amortisation of prepaid lease payments	<b>1,360</b>	954
Less: amounts capitalised in construction in progress	<u>(248)</u>	<u>–</u>
	<b>1,112</b>	954
Staff costs, including directors' emoluments	<b>46,456</b>	42,971
Amortisation of intangible assets (included in cost of sales)	<b>1,548</b>	1,932
Depreciation of property, plant and equipment	<b>9,040</b>	6,431
Cost of inventories recognised as an expense	<b>49,805</b>	65,332
Auditors' remuneration	<b>850</b>	750
Reversal of write-down of inventories (included in cost of sales)	<u>–</u>	<u>(522)</u>
	<b>–</b>	(199)
Gross rental income from investment property	<u>–</u>	<u>50</u>
Less: direct operating expenses	<u>–</u>	<u>50</u>
	<b>–</b>	(149)
Net rental income from investment property	<u><u>–</u></u>	<u><u>(149)</u></u>

## 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>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	<u><u>530</u></u>	<u><u>9,798</u></u>

	<b>2018</b>	2017
	<b>'000</b>	<b>'000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,090,847</b>	1,020,672
Effect of dilutive potential ordinary shares:		
– Share options	<u><b>3,794</b></u>	<u>9,397</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>1,094,641</b></u>	<u>1,030,069</u>

## 10. DIVIDENDS

	<b>2018</b>	2017
	<b>HK\$'000</b>	<b>HK\$'000</b>
Dividends recognised as distribution during the year		
– 2017 Final – HK\$0.01 (2016: HK\$0.01) per share	<b>10,888</b>	10,853
– 2018 Interim – HK\$0.01 (2017: HK\$0.01) per share	<b>10,935</b>	10,858
– 2017 Special – HK\$0.01 per share	<u>–</u>	<u>10,858</u>
	<u><b>21,823</b></u>	<u>32,569</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2018 of HK\$0.01 (2017: HK\$0.01) per ordinary share has been proposed by the Directors and is subject to approval by the Shareholders in the forthcoming general meeting.

## 11. TRADE AND OTHER RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	21,780	16,651
Prepayments to suppliers	2	1,463
Prepaid lease payments	1,623	1,067
Prepayments for other expenses	18,407	9,882
Other deposits (mainly including rental and building management fee deposits)	5,133	3,626
Other receivables	1,691	873
	<u>48,636</u>	<u>33,562</u>

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0–30 days	8,825	7,433
31–60 days	6,991	4,604
61–90 days	3,797	3,833
Over 90 days	2,167	781
	<u>21,780</u>	<u>16,651</u>

## 12. TRADE AND OTHER PAYABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	9,504	9,571
Receipts in advance	1,628	5,443
Accruals (mainly including salaries and advertising expenses)	<u>19,172</u>	<u>13,923</u>
	<u><b>30,304</b></u>	<u><b>28,937</b></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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0–30 days	8,732	7,686
31–60 days	681	1,169
61–90 days	9	390
Over 90 days	<u>82</u>	<u>326</u>
	<u><b>9,504</b></u>	<u><b>9,571</b></u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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 the consumer’s 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 Year, the Group’s revenue was approximately HK\$188.6 million, representing a decrease of approximately 6.5% as compared to approximately HK\$201.8 million for the last year. The Group has four business segments classified by their ownership, licensing rights and services rendered. During the Year, 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 95.8% (2017: 88.7%) of the Group’s revenue. On the other hand, the revenue contribution from the Brand Development and Management Segment fell from approximately 9.4% of the total revenue for the last year to approximately 3.3% of the total revenue for the Year. The Trading of Goods Segment recorded a continuous drop in revenue and its revenue contribution remains in low level of approximately 0.4% (2017: 1.9%). Healthcare Segment, being in start-up stage, only accounted for approximately 0.5% of the total revenue for the Year.

The Group’s business operations are mainly based in Hong Kong, though its products are distributed through distributors appointed in the PRC, Taiwan, Macau, and export to markets such as Malaysia. Revenue generated from Hong Kong market for the Year recorded approximately HK\$145.9 million (2017: HK\$155.3 million), representing approximately 77.4% of the total revenue for the Year (2017: 77.0%). On the other hand, revenue generated from the PRC market for the Period recorded approximately HK\$41.0 million (2017: HK\$42.2 million), representing approximately 21.7% of the total revenue for the Year (2017: 20.9%). The revenue generated from sales in Hong Kong decreased due to weakened purchasing power of tourists from the PRC under the Individual Visit Scheme. Also, the revenue generated from sales in the PRC decreased due to weakened purchasing power of citizen of the PRC.



## **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)”, “Beautymate (美肌の誌)”, “Shuang Long (雙龍)” and “King’s Antiseptic (殺菌王)”. The Group started developing the “Hin Sang (衍生)” brand in year 2004 mainly for its health supplements. “Tai Wo Tong (太和堂)” was developed in year 2012 mainly for the Group’s proprietary Chinese medicine category. With a view to further enhancing brand recognition of the Group’s own brand products.

The revenue of this segment was approximately HK\$180.6 million for the Year, represented a slightly increase of approximately 1.0% comparing to approximately HK\$178.9 million for the last year. This segment’s profit for the Year was approximately HK\$36.8 million, representing an increase of approximately 52.1% comparing to approximately HK\$24.2 million for the last year, which was mainly due to (i) increase in profit contribution from products developed by the Group under its own brands with improved profit margin and (ii) there was an unrealised net exchange gain for the Year, as compared to an unrealised net exchange loss for the last year. This segment’s profit margin for the Year was approximately 20.4% while the profit margin for the last year was approximately 13.5%.

## **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\$6.3 million for the Year, represented a decrease of approximately 66.8% comparing to approximately HK\$19.0 million for the last year. Such significant decrease was mainly due to the shift of focus by the management of the Group to the Product Development Segment during the Year in order to enhance the brand image of the Group’s own-branded products. This segment recorded a profit of approximately HK\$0.6 million for the Year while a loss of approximately HK\$2.6 million was incurred for the last year.

## **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.

The revenue of this segment was approximately HK\$0.7million for the Year, represented a significantly decrease of approximately 81.6% comparing to approximately HK\$3.8 million for the last year and it accounted for approximately 0.4% and 1.9% of the Group's revenue for the Year and for the last year respectively, as the management of the Group focused on the Product Development Segment during the Year. This segment's loss for the Year was approximately HK\$71,000 as compared to approximately HK\$371,000 for the last year.

## **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 specialised in mother-infant Chinese medical healthcare.

The revenue of this segment was approximately HK\$0.9 million and it accounted for approximately 0.5% of the Group's revenue for the Year. This segment's loss for the Year was approximately HK\$15.8 million as compared to approximately HK\$3.8 million for the last year, the significant increase due to this segment is still in start-up stage with heavily operating costs incurred before generating decent revenue.

## **HUMAN RESOURCES**

The Group had a total of 219 staff as at 31 March 2018. The employees of the Group are on fixed salary, sales commission individually and year-end discretionary performance bonus. The Group has devised an assessment system for its employees and the Group uses the assessment result for salary review and promotion decisions. All of the employees undergo a performance appraisal once a year. Such an appraisal provides the Group with an opportunity to assess each individual employee's strengths and areas for improvement, thereby enabling the Group to effectively train and develop each individual employee. A Share Option Scheme was adopted in September 2014 to recognise and acknowledge those employees who have made contribution to the Group.

## 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 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 expand in the mother-infant healthcare market through joint venture with the Fullshare Group**

The Group has established a joint venture company with Fullshare Group to expand the business of mother-infant Chinese medical healthcare as well as diagnosis and treatment services to capture this fast-growing market in both Hong Kong and the PRC. The first Hin Sang Herbaby Health Centre in Shek Mun, Shatin, Hong Kong was operated since June 2017.

In addition, the Group formed two joint venture companies with 南京南中醫豐盛健康學院有限公司 (Nanjing South Chinese Medical Fullshare Health Institute Company\*) (the "Health Institute") to operate another two Clinics in Nanjing City of the Jiangsu Province, the PRC. The first Clinic was operated since January 2018 and the second Clinic was soft opened on 29 May 2018. The Directors believe that these joint venture companies can further leverage on the financial resources, management experience and expertise of the Group and Health Institute, in light of the huge opportunity brought by the "two-child" policy of the PRC. Further details are set out in the Company's announcement dated 8 June 2017.

**(b) 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 emphasising 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.

**(c) 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. With reference to the Company's announcement dated 21 June 2017, the Group intends to develop 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. On 9 October 2017, the Group paid RMB17.4 million (equivalent to HK\$20.7 million) as land use right payment in relation to acquisition of a piece of land, and the production plant is under construction stage.

Furthermore, with reference to the Company's announcement dated 25 April 2018, the Group acquires an industrial property with gross floor area of approximately 29,000 square feet at the consideration of HK\$158,380,000 located in Shatin, Hong Kong. The Group intends to use certain portion of the industrial property as a GMP manufacturing plant to serve the post-processing procedures for its own brand products, and the remaining part will be used as warehouse. The Director believes that it will achieve rental saving in the long run and better cost control, and also provides more stringent quality control on its own brand healthcare products.

**(d) 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. Revenue from e-commerce platforms accounted for approximately HK\$16.5 million (2017: HK\$9.1 million) of the Group’s total revenue for the Year. The Group will continue to introduce more high quality health supplements on online platforms to expand our product portfolio and market scale.

\* *The English name is for identification purposes only*

## **FINANCIAL REVIEW**

### **Revenue**

The Group’s revenue was approximately HK\$188.6 million for the Year as compared to HK\$201.8 million for the last year, representing a decrease of approximately 6.5%. 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 Year, the revenue generated from the Product Development Segment increased by approximately HK\$1.7 million, representing an increase of 1.0% as compared to the last year. The revenue generated from the Brand Development and Management Segment and the Trading of Goods Segment decreased by approximately HK\$12.7 million and HK\$3.1 million respectively, representing a decrease of approximately 66.8% and 81.6% as compared to the last year. The decrease in revenue for these segments was mainly due to the decline in revenue from the Hong Kong market, as a result of the stagnant retail market in Hong Kong which result in a cautious sentiment of the local customers. Revenue generated from Healthcare segment was approximately HK\$0.9 million and it accounted for approximately 0.5% of the Group’s revenue for the Year.

## **Cost of Sales**

The Group's cost of sales decreased by 16.3% from approximately HK\$68.6 million for the last year to approximately HK\$57.4 million for the Year. Such decrease was primarily due to the drop in the cost of sales under the Brand Development and Management Segment and Trading of Goods Segment by approximately 62.2% and 79.6% respectively as compared to the last year.

## **Gross Profit and Gross Profit Margin**

The Group's gross profit decreased by 1.5% from approximately HK\$133.2 million for the last year to approximately HK\$131.2 million for the Year. The gross profit margin for the Year increased from 66.0% to 69.6%, which was mainly resulted from introduction of higher profit margin products from the Product Development Segment.

## **Other Income**

The Group's other income increased from approximately HK\$5.1 million for the last year to approximately HK\$6.4 million for the Year. Such slight increase of other income was mainly due to the dividend income from an available-for-sale investment of approximately HK\$2.0 million which is partially set-off by the decrease in interest income from bank deposits of approximately HK\$0.7 million.

## **Other Gains and Losses**

Other gains and losses for the Year recorded a loss of approximately HK\$11.6 million (2017: a loss of approximately HK\$6.7 million). The loss was attributable to an impairment loss on an available-for-sale investment of approximately HK\$16.3 million and it is partially set-off by an unrealised net exchange gain of approximately HK\$5.8 million for the Year (2017: an unrealised net exchange loss of approximately HK\$7.5 million).

## **Selling and Distribution Expenses**

Selling and distribution expenses decreased by 7.6% from approximately HK\$41.0 million for the last year to approximately HK\$37.9 million for the Year. Such decrease in selling and distribution expenses was attributable to the decrease in advertising expenses in Hong Kong due to the change of the Group's marketing and advertising strategy by conducting more marketing and advertising on paper media rather than on TV media in Hong Kong.

## **Administrative Expenses**

Administrative expenses increased by HK\$9.4 million or 12.1% from approximately HK\$77.7 million for the last year to approximately HK\$87.1 million for the Year which was mainly attributable to (i) the increase of depreciation and amortisation expenses from approximately HK\$7.4 million for the last year to approximately HK\$10.2 million for the year; (ii) the increase in travel and entertainment expenses from HK\$6.2 million for the last year to approximately HK\$8.7 million for the year; (iii) the increase in staff costs (excluding share-based payment expenses) from approximately HK\$29.4 million for the last year to approximately HK\$30.8 million for the Year; (iv) the increase in donation from HK\$0.8 million for the last year to approximately HK\$2.1 million for the year and the increase in office expenses from approximately HK\$5.2 million for the last year to approximately HK\$6.4 million for the Year. Healthcare segment accounts for 68.1% among the incensement of HK\$9.4 million.

## **Taxation**

The Group's tax charge increased by 76.6% from approximately HK\$4.7 million for the last year to approximately HK\$8.3 million for the Year. The increase in tax charge was due to adequate provision of Hong Kong Profits Tax at 16.5% which has been made based on the assessment of profit before tax of the individual operating companies.

## **Loss/Profit for the Year**

During the Year, the Group recorded a net loss of approximately HK\$7.2 million for the Year compared to a net profit of approximately HK\$8.3 million for the last year.

## **Other Comprehensive Income**

The Group recorded other comprehensive income increased by 2,772.1% from approximately HK\$4.3 million for the last year to approximately HK\$123.5 million for the Year as result of a fair value gain on an available-for-sale investment of approximately HK\$108.1 million and exchange gain on translation of foreign operations of approximately HK\$15.4 million.

## **Available-for-sale Investments**

The Group held available-for-sale investments 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 (stock code: 607), and there was no addition or disposal of the shares of Fullshare during the Year. As at 31 March 2018, the carrying amount of these shares amounted to approximately HK\$516.6 million (as at 31 March 2017: HK\$408.6 million), with the fair value gain of approximately HK\$108.0 million was recognised as other comprehensive income for the Year, and these shares represented approximately 0.6% of the issued ordinary shares of Fullshare as at 31 March 2018. The carrying amount of these shares represented approximately 50.9% of the total assets of the Group as at 31 March 2018.

The second listed equity security represents 45,411,600 shares in Nanjing Sinolife United Company Limited (“Nanjing Sinolife”) (stock code: 3332). With reference to the Company’s circular dated 21 September 2017, the Company purchased these shares from a wholly-owned subsidiary of Fullshare with the consideration of HK\$73,112,676 and the transaction was completed on 18 October 2017. There was no addition or disposal of this investment during the Year. As at 31 March 2018, the carrying amount of these shares amounted to approximately HK\$56.8 million, with an impairment loss of approximately HK\$16.3 million recognised for the Year due to significant decline in the market value compared with the purchase cost, and these shares represented approximately 4.8% of the issued ordinary shares of Nanjing Sinolife as at 31 March 2018. The carrying amount of these shares represented approximately 5.6% of the total assets of the Group as at 31 March 2018.

The fair value of these securities as at the date of this announcement was approximately HK\$457,037,000.



## **Inventories**

The Group's inventories increased by 7.9% from approximately HK\$8.9 million as at 31 March 2017 to approximately HK\$9.6 million as at 31 March 2018 which was primarily due to the increase in finished products for distribution by 10.5% from approximately HK\$7.6 million as at 31 March 2017 to approximately HK\$8.4 million as at 31 March 2018. The inventory turnover days increased from 58.5 days for the last year to 58.8 days for the Year.

## **Held For Trading Investment**

The Group held several listed equity securities for short term trading purpose and they are stated at fair value. The largest portion of listed equity security represents 5,746,000 shares in Nanjing Sinolife which were purchased from the primary market during the Year. As at 31 March 2018, the carrying amount of these shares amounted to approximately HK\$7.2 million, and these shares represented approximately 0.6% of the issued ordinary shares of Nanjing Sinolife as at 31 March 2018. The carrying amount of these shares represented approximately 0.7% of the total assets and 80.0% of the held for trading investments of the Group as at 31 March 2018. The fair value of these securities as at the date of this announcement was approximately HK\$6,263,000.

## **Trade Receivables**

The Group's trade receivables increased by 30.5% from approximately HK\$16.7 million as at 31 March 2017 to approximately HK\$21.8 million as at 31 March 2018, which was primarily attributable to the decrease in trade receivables from distributors arising from the purchase of healthcare products of the Product Development Segment. Trade receivables turnover days slightly decreased from 38.0 days for the last year to 37.2 days for the Year.

## **Trade Payables**

The Group's trade payables decreased by approximately 1.0% from approximately HK\$9.6 million as at 31 March 2017 to approximately HK\$9.5 million as at 31 March 2018. The trade payables turnover days increased from 45.8 days for the last year to 60.7 days for the Year.

## **Liquidity, gearing ratio and capital structure**

The Group's bank balances and cash were mainly denominated in HKD and RMB, the balances were decreased by approximately 35.6% from approximately HK\$288.9 million as at 31 March 2017 to approximately HK\$186.0 million as at 31 March 2018. As at 31 March 2018, the Group had no outstanding bank borrowings; and the amount of unutilized banking facilities was approximately HK\$120 million. The gearing ratio (total debts divided by total equity) as at 31 March 2018 was nil (31 March 2017: nil). The current ratio (total current assets divided by total current liabilities) as at 31 March 2018 was 7.5 (31 March 2017: 11.4).

## **Contingent liabilities**

As at 31 March 2018, the Directors were not aware of any significant events that would have resulted in material contingent liabilities.

## **Charges on the Group's assets**

As at 31 March 2018, none of the assets of the Group were pledged in favor of any banks.

## **Capital commitments**

As at 31 March 2018, the Group had total capital commitments of HK\$6.3 million in respect of the acquisition of property, plant and equipment.

## **Event after the reporting period**

On 25 April 2018, Beautymate Hong Kong Limited, a wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement with the vendor, Emwell Limited, an independent third party, for acquisition of an industrial property and a car parking space at the consideration of HK\$158,380,000 and the transaction shall be completed on or before 8 October 2018. The Group intends to use certain portion of the industrial property as a GMP manufacturing plant to serve the post-processing procedures for its own brand products, and the remaining part will be used as a warehouse.

## **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, with the assistance of the Group's chief financial officer, 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.

## **OTHER INFORMATION**

### **DIVIDENDS**

The Board recommends the payment of a final dividend of HK\$0.01 per Share for the year ended 31 March 2018 (the "**2018 Final Dividend**") with a sum of approximately HK\$10,935,080, which is subject to the Shareholders' approval at the forthcoming 2018 annual general meeting of the Company to be held on Monday, 3 September 2018 (the "**AGM**"). The 2018 Final Dividend will be distributed on or about Tuesday, 2 October 2018 to Shareholders whose names appear on the register of members of the Company on Wednesday, 12 September 2018.

## **CLOSURE OF REGISTER OF MEMBERS**

For determining the entitlement to attend and vote at the forthcoming AGM of the Company, the register of members of the Company will be closed from Wednesday, 29 August 2018 to Monday, 3 September 2018, both days inclusive, during which period no transfer of Shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 28 August 2018.

Subject to the approval of the proposed 2018 Final Dividend by the Shareholders at the AGM, the register of members of the Company will be closed from Monday, 10 September 2018 to Wednesday, 12 September 2018, both days inclusive, during which period no transfer of Shares will be registered for ascertaining Shareholders' entitlement to the proposed 2018 Final Dividend. In order to qualify for the proposed 2018 Final Dividend, all transfer forms, accompanied by the relevant share certificates must be lodged with the Company's branch share register in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 7 September 2018.

## **CORPORATE GOVERNANCE PRACTICES**

The Board and senior management of the Group strive to maintain a high standard of corporate governance, to formulate sound 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 Shareholders' expectations are met.

### **Compliance with Corporate Governance Code**

Throughout the year ended 31 March 2018, the Company has applied the principles and complied with the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules except for the below deviations:

### **Code Provision A.2.1**

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Pang Siu Hin, is both the chairman and the chief executive officer of the Company. In view of the fact that Mr. Pang is one of the co-founders of the Group and has been operating and managing the Group effectively 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 with his profound knowledge and experience in the industry. The Board therefore considers that the deviation from the CG Code provision A.2.1 is reasonably justified under such circumstances.

### **Code Provision F.1.1**

Under the code provision F.1.1 of the CG Code, the Company engages Ms. Wong Ting Dan (resigned on 1 July 2017) and Ms. Kho Polien (“**Ms. Kho**”) (appointed on 1 July 2017) as Company Secretary during the Period. Ms. Kho is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators respectively and in performing her duties as the company secretary of the Company, she reports to the Board and maintains contact with the chief executive officer of the Company.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors and all Directors confirmed that they have complied with the standards required by the Model Code during the Period.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company repurchased a total of 1,336,000 Shares on the Stock Exchange during the Period and details of which are as follows:

Date of Repurchase	Number of Shares Repurchased HK\$	Purchase Price per Share	
		Highest HK\$	Lowest HK\$
25 April 2017	1,142,000	1.35	1.33
26 April 2017	186,000	1.35	1.35
27 April 2017	<u>8,000</u>	1.35	1.35
	<u><u>1,336,000</u></u>		

The Shares repurchased were subsequently cancelled on 19 May 2017. Save as disclosed above, the Company has not made any repurchase of the Shares (whether on the Stock Exchange or otherwise) during the Period.

## REVIEW OF ANNUAL RESULTS

The Group's consolidated financial statements for the Period have 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
“Brand Development and Management Segment”	the business segment in which the Group purchases primarily personal care products from the brand proprietors and manage and develop the brand of such products
“BVI”	the British Virgin Islands
“Company”	Hin Sang Group (International) Holding Co. Limited, 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 directors of the Company
“Fullshare”	Fullshare Holdings Limited, 豐盛控股有限公司, a company incorporated in the Cayman Islands with limited liability whose issued shares are listed on the Stock Exchange (stock code: 607)
“Fullshare Group”	Fullshare and its subsidiaries
“GMP”	“Good Manufacturing Practice” is a quality assurance approach used by drug manufacturing industry worldwide to ensure that products are consistently produced and controlled according to appropriate quality standards. Hong Kong, like most other countries, has adopted the GMP guidelines promulgated by the World Health Organisation (WHO)

“Group”	the Company and its subsidiaries
“Healthcare Segment”	the business segment in which the Group engages in providing Chinese medical healthcare related services which targets for mothers and children in Hong Kong and the PRC
“Hin Feng Group”	Hin Feng Limited 衍豐集團(國際)控股有限公司, a joint venture company established in Hong Kong on 7 July 2016, owned as to 51% by the Company and as to 49% by Five Seasons VIII Limited (a wholly-owned subsidiary of Fullshare)
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of Shares on the Main Board
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Period”	the year ended 31 March 2018
“PRC” or “China”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, Macau and Taiwan
“Product Development Segment”	the business segment in which the Group develops own personal care products, health supplements and household products sold under its own brands, including but not limited to “Beautymate (美肌の誌)”, “Hin Sang (衍生)”, “Shuang Long (雙龍)” and “King’s Antiseptic (殺菌王)”
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company



“Shareholder(s)”	holder(s) of the Shares
“Share Option Scheme”	the share option scheme adopted by the Company on 25 September 2014
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trading of Goods Segment”	the business segment in which the Group engages in trading and distributing skin care products, personal care products and household products purchased from various authorized dealers and independent traders or directly from suppliers

*English translation of names in Chinese in this announcement which are marked “\*” are for identification purposes only.*

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

Hong Kong, 25 June 2018

*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, and the independent non-executive Directors are Mr. Lau Chi Kit, Mr. Lee Luk Shiu and Dr. Tang Sing Hing, Kenny.*