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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 2017

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 2017 together with the comparative figures for the year ended 31 March 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

		2017	2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	201,815	227,460
Cost of sales		(68,572)	(89,091)
Gross profit		133,243	138,369
Other income	4	5,141	5,750
Other gains and losses	5	(6,676)	(3,842)
Selling and distribution expenses		(41,006)	(47,823)
Administrative expenses		(77,679)	(65,472)
Finance costs	6	(8)	–

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit before tax		13,015	26,982
Income tax expense	7	<u>(4,707)</u>	<u>(5,767)</u>
Profit for the year	8	<u>8,308</u>	<u>21,215</u>
Other comprehensive income/(expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(3,980)	(3,123)
Fair value gain on available-for-sale investments		<u>8,314</u>	<u>–</u>
		<u>4,334</u>	<u>(3,123)</u>
Total comprehensive income for the year		<u>12,642</u>	<u>18,092</u>
Profit/(Loss) for the year attributable to:			
– Owners of the Company		9,798	21,214
– Non-controlling interests		<u>(1,490)</u>	<u>1</u>
		<u>8,308</u>	<u>21,215</u>
Total comprehensive income/(expense) for the year attributable to:			
– Owners of the Company		14,094	18,091
– Non-controlling interests		<u>(1,452)</u>	<u>1</u>
		<u>12,642</u>	<u>18,092</u>
Earnings per share			
– Basic (HK cents)	9	<u>0.96</u>	<u>2.65</u>
– Diluted (HK cents)		<u>0.95</u>	<u>2.64</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		117,399	40,749
Prepaid lease payments		30,268	27,393
Investment property		–	6,289
Intangible assets		1,548	3,480
Deposit and prepayments for life insurance policies		4,954	4,795
Deposits for acquisition of property, plant and equipment		2,871	387
Available-for-sale investments		408,552	–
		<u>565,592</u>	<u>83,093</u>
Current assets			
Inventories		8,899	13,081
Trade and other receivables	11	33,562	38,119
Tax refundable		2,983	–
Bank balances and cash		288,851	239,742
		<u>334,295</u>	<u>290,942</u>
Total assets		<u>899,887</u>	<u>374,035</u>
Current liabilities			
Trade and other payables	12	28,937	26,467
Current tax liabilities		395	1,070
		<u>29,332</u>	<u>27,537</u>
Net current assets		<u>304,963</u>	<u>263,405</u>
Total assets less current liabilities		<u><u>870,555</u></u>	<u><u>346,498</u></u>
Capital and reserves			
Share capital		109,012	80,047
Reserves		725,573	263,250
Equity attributable to owners of the Company		834,585	343,297
Non-controlling interests		35,970	3,201
Total equity		<u><u>870,555</u></u>	<u><u>346,498</u></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 on the Stock Exchange and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 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.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments ¹
HKFRS 16	Leases ²
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKAS 40	Transfers of Investment Property ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 March 2017, the Group has non-cancellable operating lease commitments of approximately HK\$8,255,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

The Directors anticipate that the adoption of other new and amendments to HKFRSs will have no material impact on the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for the sales of goods.

Information reported to the Board, 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. During the year ended 31 March 2017, 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 centre 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 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>
Revenue					
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>	<u>17,508</u>
Interest income					4,655
Unallocated expenses					(9,140)
Finance costs					<u>(8)</u>
Profit before tax					<u>13,015</u>

For the year ended 31 March 2016

	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>185,032</u>	<u>30,540</u>	<u>11,888</u>	<u>-</u>	<u>227,460</u>
Segment profit/(loss)	<u>24,292</u>	<u>4,421</u>	<u>(496)</u>	<u>-</u>	<u>28,217</u>
Interest income					4,907
Unallocated expenses					<u>(6,142)</u>
Profit before tax					<u>26,982</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.

	2017	2016
	HK\$'000	HK\$'000
Segment assets		
Product Development Segment	182,302	119,779
Brand Development and Management Segment	4,098	7,601
Trading of Goods Segment	456	2,118
Healthcare Segment	7,635	–
	<hr/>	<hr/>
Total segment assets	194,491	129,498
Unallocated	705,396	244,537
	<hr/>	<hr/>
Consolidated assets	899,887	374,035
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Product Development Segment	26,968	22,943
Brand Development and Management Segment	1,780	2,959
Trading of Goods Segment	76	565
Healthcare Segment	113	–
	<hr/>	<hr/>
Total segment liabilities	28,937	26,467
Unallocated	395	1,070
	<hr/>	<hr/>
Consolidated liabilities	29,332	27,537
	<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 and tax refundable.
- all liabilities are allocated to operating segments other than current tax liabilities.

Other segment information

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

For the year ended 31 March 2016

	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	43,820	427	166	-	44,413
Amortisation of intangible assets	1,610	-	-	-	1,610
Amortisation of prepaid lease payments	775	-	-	-	775
Depreciation of property, plant and equipment	3,145	242	94	-	3,481
Gain on disposal of property, plant and equipment	171	28	11	-	210
Reversal of write-down of inventories	399	-	-	-	399

Geographical information

The Group's operations are located in Hong Kong, 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 its assets.

	Revenue from external customers		Non-current assets	
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Hong Kong	155,327	191,783	106,367	30,014
PRC	42,161	31,485	45,645	48,163
Taiwan	4,327	4,192	74	121
	<u>201,815</u>	<u>227,460</u>	<u>152,086</u>	<u>78,298</u>

Information about major customers

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A ¹	36,843	43,681
Customer B ¹	<u>21,701</u>	<u>24,053</u>

¹ Revenue from Product Development Segment, and Brand Development and Management Segment.

4. OTHER INCOME

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest income on bank deposits	4,014	4,741
Interest income on deposit and prepayments for life insurance policies	217	166
Interest income on loan receivables	424	–
Rental income	199	309
Forfeiture of customers' deposits	199	129
Compensation from a brand proprietor for breach of contract	–	302
Others	88	103
	<u>5,141</u>	<u>5,750</u>

5. OTHER GAINS AND LOSSES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Gain on fair value change of investment property	729	–
Gain on disposal of property, plant and equipment	97	210
Bargain purchase gain arising on acquisition of subsidiaries	–	3,869
Net foreign exchange loss	(7,502)	(7,921)
	<u>(6,676)</u>	<u>(3,842)</u>

6. FINANCE COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on bank loans	<u>8</u>	<u>–</u>

7. INCOME TAX EXPENSE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax		
– Current year	3,646	5,914
– Under/(Over) provision in prior year	666	(147)
	<u>4,312</u>	<u>5,767</u>
PRC Enterprise Income Tax		
– Current year	395	–
	<u>395</u>	<u>–</u>
Total income tax recognised in profit or loss	<u><u>4,707</u></u>	<u><u>5,767</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. PROFIT FOR THE YEAR

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Staff costs, including directors' emoluments	42,971	39,717
Amortisation of intangible assets (included in cost of sales)	1,932	1,610
Amortisation of prepaid lease payments	954	775
Depreciation of property, plant and equipment	6,431	3,481
Cost of inventories recognised as an expense	65,332	83,645
Auditors' remuneration	750	700
Reversal of write-down of inventories (included in cost of sales)	(522)	(399)
	<u><u>120,818</u></u>	<u><u>134,538</u></u>
Gross rental income from investment property	(199)	(309)
Less: direct operating expenses	50	54
	<u><u>(149)</u></u>	<u><u>(255)</u></u>
Net rental income from investment property	<u><u>(149)</u></u>	<u><u>(255)</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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	<u>9,798</u>	<u>21,214</u>
	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,020,672	800,134
Effect of dilutive potential ordinary shares: – Share options	<u>9,397</u>	<u>3,473</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,030,069</u>	<u>803,607</u>

10. DIVIDENDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Dividends recognised as distribution during the year		
– 2016 Final – HK\$0.01 (2015: HK\$0.01) per share	10,853	8,000
– 2017 Interim – HK\$0.01 (2016: HK\$0.01) per share	10,858	8,005
– 2017 Special – HK\$0.01 (2016: Nil) per share	<u>10,858</u>	<u>–</u>
	<u>32,569</u>	<u>16,005</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 March 2017 of HK\$0.01 (2016: 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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	16,651	25,333
Prepayments to suppliers	1,463	583
Prepaid lease payments	1,067	976
Prepayments for other expenses	9,882	5,641
Other deposits (mainly including rental and building management fee deposits)	3,626	2,285
Other receivables	873	3,301
	<u>33,562</u>	<u>38,119</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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0–30 days	7,433	12,138
31–60 days	4,604	6,652
61–90 days	3,833	4,690
Over 90 days	781	1,853
	<u>16,651</u>	<u>25,333</u>

12. TRADE AND OTHER PAYABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade payables	9,571	7,646
Receipts in advance	5,443	1,476
Accruals (mainly including salaries and advertising expenses)	13,923	17,345
	<u>28,937</u>	<u>26,467</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:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–30 days	7,686	4,075
31–60 days	1,169	1,925
61–90 days	390	926
Over 90 days	326	720
	<hr/>	<hr/>
	9,571	7,646
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Period, the Group's revenue was approximately HK\$201.8 million, representing a decrease of 11.3% as compared to approximately HK\$227.5 million for the year ended 31 March 2016.

Due to the weak retail market in Hong Kong and the continuous effect resulting from the change of policy of Shenzhen permanent residents' multiple-entry permits to one-visit-one-week, sales revenues for Hong Kong market declined significantly during the Period, whereas the PRC market still recorded a satisfactory growth. "Hin Sang (衍生)" brand, now available in 19 provinces in the PRC, has been receiving continuous advertising support to effectively reach couples with children through broadcasting new TV commercials on nationwide networks with high frequency, contributing to a natural growth in the PRC market.

During the Period, the Product Development Segment was still the largest segment which contributed approximately 88.7% of the Group's revenue compared to 81.4% of the total revenue for the year ended 31 March 2016. Revenue contribution from the Brand Development and Management Segment decreased from 13.4% for the last financial year to 9.4% for the Period. The Trading of Goods Segment recorded a continuous drop in revenue and its revenue contribution to the Group dropped from approximately 5.2% for the last financial year to approximately 1.9% for the Period. As the Healthcare Segment was newly established in the Period and was in a startup stage, this segment did not record any revenue for the Period.

Product Development Segment

For the Product Development Segment, the Group develops and sells personal care products, health care products and household products under its own brand names, mainly being "Hin Sang (衍生)", "Beautymate (美肌の誌)" and "Shuang Long (雙龍)" ("top three brands").

As compared to the year ended 31 March 2016, revenue from "Hin Sang (衍生)" products decreased slightly by 0.2% or approximately HK\$318,000 for the Period and the revenue from "Beautymate (美肌の誌)" dropped by 38.6% or approximately HK\$4.4 million for the Period due to more fierce market competition than last financial year.

As a result, the revenue of this segment dropped to approximately HK\$178.9 million for the Period from approximately HK\$185.0 million for the year ended 31 March 2016. This segment's profit for the Period was approximately HK\$24.2 million, representing a decrease of approximately HK\$50,000 or 0.2% as compared to that of the year ended 31 March 2016. This segment's profit margin for the Period was approximately 13.5%, while the profit margin for the year ended 31 March 2016 was approximately 13.1%.

The aggregate revenue generated from the top three brands of this segment amounted to approximately HK\$174.8 million for the Period, representing 97.7% of this segment's revenue as compared to approximately HK\$180.1 million for the year ended 31 March 2016, representing 97.4% of the revenue of this segment.

Brand Development and Management Segment

For the Brand Development and Management Segment, the Group sells and distributes products with exclusive distribution rights. The three major brands of this Segment are “See Young (滋源)”, “Acene (澳雪)” and “Burner (倍熱)”.

“Burner (倍熱)” was a newly agented brand during the Period. More resources on promotion and advertising were allocated which resulted in it being one of the major brands of the Group during the Period.

This segment recorded revenue of approximately HK\$30.5 million and HK\$19.0 million for the years ended 31 March 2016 and 2017, representing a year on year decrease of approximately 37.6%. This segment's loss for the Period was approximately HK\$2.6 million, representing a decrease of approximately HK\$7.0 million or 158.0% as compared to that of the year ended 31 March 2016. This segment's loss margin for the Period was approximately 13.5% while the profit margin for the year ended 31 March 2016 was approximately 14.4%.

Total revenue of these three major brands amounted to approximately HK\$9.7 million and HK\$10.5 million for the year ended 31 March 2016 and 2017 respectively, representing approximately 31.8% and 55.3% of this segment's revenue of the respective periods.

Trading of Goods Segment

Trading of Goods Segment distributes those products purchased from authorised dealers, independent traders, manufacturers or parallel importers. This segment's contribution to total revenue and profit is relatively smaller when compared with the above two segments.

This segment recorded revenue of approximately HK\$11.9 million and HK\$3.8 million for the years ended 31 March 2016 and 2017, representing a year on year decrease of approximately 67.7%. This segment's loss for the Period was approximately HK\$371,000, representing a decrease of approximately HK\$125,000 or 25.2% as compared to the loss of approximately HK\$496,000 for the year ended 31 March 2016. This segment's loss margin for the Period was approximately 9.7% while the loss margin for the last financial year was approximately 4.2%.

The decrease of revenue in this segment for the Period was the consequence of the shift of the management's focus from this segment which has lower profit margin to the Product Development Segment which has higher profit margin, which was executed in response to the product development initiative of the Group to enhance brand awareness of its own-branded products.

Healthcare Segment

Healthcare Segment provides different types of healthcare related services in Hong Kong and the PRC for mothers and children. Since this segment is newly established during the Period and all projects are underway, no revenue was recorded during the Period. This segment recorded loss for the Period of approximately HK\$3.8 million.

HUMAN RESOURCES

The Group had a total of 171 staff as at 31 March 2017. The employees of the Group are on fixed salary. The Group has devised an assessment system for its employees and the Group uses the assessment result for salary review and promotion decisions. All 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 Options Scheme was adopted in September 2014 to recognise and acknowledge those employees who have made contribution to the Group.

PROSPECTS

In recent years, a relatively stronger Hong Kong dollar versus Renminbi had reduced the consumption sentiment of Mainland visitors in Hong Kong. With such a tough local market, chain retailers in Hong Kong in general has been recording an overall decline in revenue.

Despite the tough environment, the Board considered that “Hin Sang (衍生)” has been well-positioned to meet the increasing demand of consumers in Hong Kong and China for high quality health supplement. Therefore, the Group is confident that Hong Kong market can still provide a stable platform for its business development. In order to tackle the upcoming challenges and seize the opportunities ahead, the Group will remain cautious when carrying out the following initiatives with an 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. Hin Sang Herbaby Health Centre was soft opened on 29 May 2017 in Shek Mun Shatin, Hong Kong and will be officially opened on 25 June 2017.

In addition, the Group will form 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*) to operate Chinese medical clinics in Nanjing, the PRC. The Directors believe that these joint venture companies can further leverage on the financial resources, management experience and expertise of the Group and 南京南中醫豐盛健康學院有限公司 (Nanjing South Chinese Medical Fullshare Health Institute Company*), 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 further expand Hin Fai’s e-commerce for own-branded products

Hin Fai International Holding Company Limited (“Hin Fai”) was set up as the Group’s online platform to promote e-commerce sales. In light of the rapid development of e-commerce, Hin Fai recorded approximately HK\$9.1 million in revenue during the Period. Since May 2016, the Group’s online sales has been operating by independent third party merchants. In the future, the Group will increase its resources allocation to this segment with a view to further expanding this business segment.

(c) 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. To further enhance the popularity of the Group's own branded products in Hong Kong as well as the brand awareness and image in the PRC, the Group's new product development initiative will focus on canned botanical beverages and extension of health supplement. “Hin Sang Health Star Botanical Beverage (衍生十星茶)” and “Hin Sang Shiny Eye Botanical Beverage (衍生采瞳)” are expected to be launched in summer 2017 through effective and innovative promotional channels. The Group expects to continue to further capture the mother-infant healthcare market in Hong Kong and the PRC.

(d) To expand the manufacturing arm of the Group

The Group acquired a commercial property which has been used as its principal place of business in Hong Kong since December 2016. This self-use office would have potential in capital appreciation, and can also finance the Group's further developments. For details, please refer to the announcements of the Company dated 16 June 2016 and 1 December 2016, respectively.

The Group plans to develop its own manufacturing arm to enhance the production efficiency of its own branded products in order to capture opportunities ahead. The Group intends to develop a production plant for manufacturing health supplements in Yunfu City of the Guangdong Province, the PRC, aiming to increase the production volume and efficiency and attaining more stringent quality control. For details, please refer to the announcement of the Company dated 21 June 2017.

FINANCIAL REVIEW

Revenue

The Group's revenue was approximately HK\$201.8 million for the Period as compared to approximately HK\$227.5 million for the year ended 31 December 2016, representing a year on year decrease of 11.3%. Such decrease was mainly due to the decline in revenue from the Hong Kong market, as a result of the stagnant retail market in Hong Kong given a cautious sentiment of the local customers.

Cost of Sales

The Group's cost of sales decreased by 23.0% from approximately HK\$89.1 million for the year ended 31 March 2016 to approximately HK\$68.6 million for the Period. Such decrease in cost of sales was primarily due to the significant drop in purchase costs under the Brand Development and Management Segment and the Trading of Goods Segment by 41.3% and 68.3%, respectively, as compared to that of previous period.

In relation to the decrease in sales under the Product Development Segment, cost of sales decreased slightly by 7.9% from approximately HK\$57.8 million for the year ended 31 March 2016 to approximately HK\$53.2 million for the Period.

The change in cost of sales for all business segments were in line with the corresponding fluctuations in revenue for the Period.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by 3.7% from approximately HK\$138.4 million for the year ended 31 March 2016 to approximately HK\$133.2 million for the Period. The gross profit margin for the Period increased from 60.8% to 66.0%, which was mainly due to the increase in the proportion of sales of the Product Development Segment which has a relatively higher margin.

Other Income

The Group's other income decreased from approximately HK\$5.8 million for the year ended 31 March 2016 to approximately HK\$5.1 million for the Period. Such decrease of other income was mainly due to the net decrease in interest income from bank deposits and loan receivables of approximately HK\$303,000 and compensation of approximately HK\$302,000 paid by a brand proprietor for breach of contract during the year ended 31 March 2016.

Other Gains and Losses

Other losses increased by approximately HK\$2.8 million from loss of approximately HK\$3.8 million for the year ended 31 March 2016 to loss of approximately HK\$6.7 million for the Period. The significant increase in loss was attributable to the one-off gain of approximately HK\$3.9 million resulted from the acquisition of Tai Wo Tong Pharmaceutial and Tai Wa Tong Company Limited during the year ended 31 March 2016.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 14.2% from approximately HK\$47.8 million for the year ended 31 March 2016 to approximately HK\$41.0 million for the Period. 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 than on TV media in Hong Kong.

Administrative Expenses

Administrative expenses increased by 18.6% from approximately HK\$65.5 million for the year ended 31 March 2016 to approximately HK\$77.7 million for the Period which was mainly attributable to (i) the increase in staff costs (excluding share-based payment expenses) from approximately HK\$33.8 million for the year ended 31 March 2016 to approximately HK\$35.9 million for the Period; (ii) the increase of depreciation and amortisation expenses from approximately HK\$4.3 million for the year ended 31 March 2016 to approximately HK\$7.4 million relating to the depreciation of newly acquired commercial properties (used as office) in Hong Kong; (iii) the increase in office expenses from approximately HK\$8.5 million for the year ended 31 March 2016 to approximately HK\$11.3 million for the Period; and (iv) the increase in legal and professional fees from approximately HK\$4.1 million for the year ended 31 March 2016 to approximately HK\$5.2 million for the Period.

Taxation

The Group's tax charge decreased by 18.4% from approximately HK\$5.8 million for the year ended 31 March 2016 to approximately HK\$4.7 million for the Period, while the effective tax rates were 21.4% and 36.2%, respectively. The decrease in tax charge was in line with the decrease in profit before tax from approximately HK\$27.0 million for the year ended 31 March 2016 to approximately HK\$13.0 million for the Period.

Profit for the Period

As a result of the foregoing, the Group's net profit decreased by 60.8% from approximately HK\$21.2 million for the year ended 31 March 2016 to approximately HK\$8.3 million for the Period, and net profit margin decreased from 9.3% to 4.1% for the Period.

Inventories

The Group's inventories decreased by 32.0% from approximately HK\$13.1 million as at 31 March 2016 to approximately HK\$8.9 million as at 31 March 2017, which was primarily due to the decrease in finished products for distribution by 33.7% from approximately HK\$11.5 million as at 31 March 2016 to approximately HK\$7.6 million as at 31 March 2017. Such decrease was mainly attributable to the decrease in inventories of health care products of the Product Development Segment. The inventory turnover days decreased from 66.6 days for the year ended 31 March 2016 to 58.5 days for the Period.

Trade Receivables

The Group's trade receivables decreased by 34.3% from approximately HK\$25.3 million as at 31 March 2016 to approximately HK\$16.7 million as at 31 March 2017, which was primarily attributable to the decrease in trade receivables from distributors arising from the purchase of health care products of the Product Development Segment. Trade receivables turnover days increased from 37.6 days for the year ended 31 March 2016 to 38.0 days for the Period.

Liquidity and Capital Resources

The Group's bank balances and cash increased by 20.5% from approximately HK\$239.7 million as at 31 March 2016 to approximately HK\$288.9 million as at 31 March 2017. As at 31 March 2017, the Group had no outstanding bank borrowings and the amount of unutilised banking facilities was approximately HK\$138.8 million. The gearing ratio (total debts divided by total equity) as at 31 March 2017 was nil (31 March 2016: nil). The current ratio (total current assets divided by total current liabilities) as at 31 March 2017 was 11.4 (31 March 2016: 10.6).

Financial Management and Policy

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

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

Contingent Liabilities

As at 31 March 2017, the Directors were not aware of any significant events that would have resulted in material contingent liabilities.

OTHER INFORMATION

DIVIDENDS

The Board recommends the payment of a final dividend of HK\$0.01 per Share for the year ended 31 March 2017 (the "2017 Final Dividend") with a sum of approximately HK\$10,887,800, which is subject to the Shareholders' approval at the forthcoming 2017 annual general meeting of the Company to be held on Friday, 8 September 2017 (the "AGM"). The 2017 Final Dividend will be distributed on or about Tuesday, 10 October 2017 to Shareholders whose names appear on the register of members of the Company on Tuesday, 19 September 2017.

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 Tuesday, 5 September 2017 to Friday, 8 September 2017, 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 Monday, 4 September 2017.

Subject to the approval of the proposed 2017 Final Dividend by the Shareholders at the AGM, the register of members of the Company will be closed from Friday, 15 September 2017 to Tuesday, 19 September 2017, both days inclusive, during which period no transfer of Shares will be registered for ascertaining Shareholders' entitlement to the proposed 2017 Final Dividend. In order to qualify for the proposed 2017 Final Dividend, all transfer of Shares, 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 Thursday, 14 September 2017.

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 to meet with the expectations of the Shareholders.

Throughout the year ended 31 March 2017, the Company has applied the principles and complied with the Corporate Governance Code ("CG Code") in Appendix 14 to the Listing Rules except for the below deviations:

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, namely, Mr. Pang Siu Hin, who 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. Furthermore, the Board is of the view that the segregation of duties between the two roles have been clearly established and set out in writing in the terms of reference for the chairman and the chief executive officer. In this respect, the Board believes that sufficient checks and balances are in place irrespective of the roles of the chairman and chief executive officer vesting in one person and thus the Board considers that the deviation from the CG Code provision A.2.1 is justified under such circumstances.

Under the code provision F.1.1 of the CG Code, the Company engages Ms. Wong Ting Dan as its company secretary. Ms. Wong is a practicing solicitor and in performing her duties as the company secretary of the Company, she reports to the Board and maintains contacts 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 confirm that they have complied with the standards required by the Model Code during the Period.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed shares of the Company during the Period.

REVIEW OF ANNUAL RESULTS

The Group's consolidated financial statements for the Period have been reviewed by the Audit Committee. The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the Period as set out in this announcement have been agreed by the Company's external auditor, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's audited consolidated financial statements for the Period. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited on this announcement.

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 2017
“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, 23 June 2017

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