HANG SANG (SIU PO) INTERNATIONAL HOLDING COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3626)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Director(s)**") of Hang Sang (Siu Po) International Holding Company Limited (the "**Company**") hereby announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 31 December 2018, together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2018

		Six months ended 31 December	
		2018	2017
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
			(Note)
Revenue	*4*	**42,436**	52,712
Cost of sales		**(25,961)**	(31,392)
Gross profit		**16,475**	21,320
Other income	*5*	**815**	578
Selling expenses		**(3,578)**	(4,707)
Administrative and other operating expenses		**(10,285)**	(10,476)
Profit before income tax	*6*	**3,427**	6,715
Income tax expense	*7*	**(408)**	(1,283)
Profit and total comprehensive income for the period		**3,019**	5,432
Earnings per share attributable to equity owners of the Company			
– basic and diluted	*9*	**HK1.64 cents**	HK2.95 cents

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited) (Note)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	**18,760**	20,132
Deposits paid for acquisition of property, plant and equipment	11	**2,602**	2,255
		21,362	22,387
Current assets			
Inventories		**5,465**	4,102
Trade and other receivables	11	**11,681**	15,383
Current tax recoverable		**1,005**	1,058
Cash and cash equivalents		**65,814**	68,576
		83,965	89,119
Current liabilities			
Trade and other payables	12	**8,650**	8,346
Net current assets		**75,315**	80,773
Total assets less current liabilities		**96,677**	103,160
Non-current liabilities			
Deferred tax liabilities		**1,897**	2,199
Net assets		**94,780**	100,961
EQUITY			
Share capital		**1,840**	1,840
Reserves		**92,940**	99,121
Total equity		**94,780**	100,961

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated. See Note 3.

NOTES

For the six months ended 31 December 2018

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 8 October 2015 as an exempted company with limited liability. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is Block C, 5/F, Gee Hing Chang Industrial Building, No. 16 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 May 2016.

The parent and ultimate holding company of the Company is HSSP Limited, a company incorporated in the British Virgin Islands (the "BVI"). The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in manufacturing and sale of apparel labels and packaging printing products.

2. BASIS OF PREPARATION

The unaudited interim financial report (the "Interim Financial Report") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Interim Financial Report is presented in thousands of Hong Kong dollars ("HK$'000"), unless otherwise stated.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 30 June 2018, except for the accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 30 June 2019 and they should be read in conjunction with the consolidated financial statements for the year ended 30 June 2018. Details of any changes in accounting policies are set out in Note 3 to this announcement.

The preparation of the Interim Financial Report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 30 June 2018. The Interim Financial Report and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The Interim Financial Report is unaudited, but has been reviewed by Grant Thornton Hong Kong Limited in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA.

3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES

3.1 New and amended HKFRSs adopted as at 1 July 2018

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") are relevant to the Group's financial statements.

The Group has early adopted the amendments to HKFRS 9 "Prepayment Features with Negative Compensation" at the same time as the adoption of HKFRS 9 as at 1 July 2018.

Details of the changes in accounting policies are discussed in note 3.1(a) for HKFRS 9 and note 3.1(b) for HKFRS 15.

(a) HKFRS 9 including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"). It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 July 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 July 2018. Therefore, comparative information continues to be reported under HKAS 39.

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Cash and cash equivalents and trade and other receivables are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets are continued to be subsequently measured at amortised cost upon the application of HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 July 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls on cash and cash equivalents and trade and other receivables are discounted using effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs by using simplified approach. ECLs on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial assets, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

- an actual or expected significant deterioration in the operating results of the debtor; and

- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

The Group concluded that the adoption of the ECL model under HKFRS 9 has no material impact on the Group.

(b) HKFRS 15

Sale of apparel labels and packaging printing products

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 "Revenue" ("HKAS 18"), which covered revenue arising from sale of goods and rendering of services, and HKAS 11 "Construction Contracts" ("HKAS 11"), which specified the accounting for construction contracts.

To determine whether to recognise revenue, the Group follows a 5-step approach:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) performance obligations are satisfied

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Revenue from the sale of apparel labels and packaging printing products are generally recognised at a point in time when the customers obtain control of the promised goods in the contract.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under "Trade and other payables" as receipt in advance in the condensed consolidated statement of financial position.

The directors of the Company consider that the adoption of HKFRS 15 has no material impact on the Group's financial position and results of operation.

3.2 Issued but not yet effective HKFRSs

In the current period, the HKICPA has issued a number of new and amended HKFRSs but not yet effective. Except for the amendments to HKFRS 9 "Prepayment Features with Negative Compensation", which have been adopted at the same time as HKFRS 9, the Group has not early adopted any new or amended standards in preparing this Interim Financial Report.

The Group has the following updates to the information provided in the last annual financial statements in respect of HKFRS 16 "Lease", which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16 "Leases" ("HKFRS 16")

As discussed in the last annual financial statements, currently the Group classifies leases into operating leases. The Group enters into leases as the lessee. HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for premises and plant and machinery which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease. As disclosed in Note 13(b), as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to approximately HK$13,206,000. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt HKFRS 16 retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

4. REVENUE AND SEGMENT INFORMATION

All of the Group's revenue and operating profit are generated from manufacturing and sale of apparel labels and packaging printing products, net of any trade discounts. Revenue are generally recognised at a point in time when the customers obtain control of the promised goods in the contract. The chief operating decision maker has been identified as the Board of the Company. The Board regards the Group's business of manufacturing and sales of apparel labels and packaging printing products as a whole to make decision about resources allocation and reviews the overall results of the Group. Accordingly, no business segment analysis information is presented.

The amount of revenue recognised is as follows:

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Note)
Sale of apparel labels and packaging printing products	**42,436**	52,712

Geographical information

The following table sets out information about the geographical location of the Group's revenue. The geographical location of revenue is based on the country in which the customer is located.

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Note)
Hong Kong (place of domicile)	**10,804**	14,517
South Korea	**7,433**	9,137
Vietnam	**5,467**	8,926
Taiwan	**4,667**	5,143
United States	**3,962**	3,294
China	**2,106**	2,230
Indonesia	**1,164**	2,121
Sri Lanka	**1,141**	796
India	**493**	1,668
Others	**5,199**	4,880
	42,436	**52,712**

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

5. OTHER INCOME

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest income	**125**	2
Commission income	**122**	458
Net exchange gain	**528**	–
Others	**40**	118
	815	578

6. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging:

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Note)
Depreciation	**1,774**	1,033
Marketing services fee	**2,981**	3,938
Impairment loss on trade and other receivables	**11**	38
Operating lease charges:		
– plant and machinery	**433**	299
– premises	**4,004**	3,911

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition method chosen, the comparative information is not restated.

7. INCOME TAX EXPENSE

	Six months ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax-Hong Kong Profits Tax	**710**	1,355
Deferred taxation	**(302)**	(72)
Total income tax expense	**408**	1,283

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

For the six months ended 31 December 2018, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of the qualifying corporation will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the rate of 16.5%. (six months ended 31 December 2017: Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits.)

8. DIVIDENDS

Final dividend of HK5.00 cents per ordinary share, amounting to HK$9,200,000 in respect of the year ended 30 June 2018 was declared and paid during the current period (six months ended 31 December 2017: HK$Nil).

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2018 (six months ended 31 December 2017: HK$Nil).

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity owners of the Company of HK$3,019,000 (six months ended 31 December 2017: HK$5,432,000) and the weighted average of 184,000,000 (six months ended 31 December 2017: 184,000,000) ordinary shares.

Diluted earnings per share for the six months ended 31 December 2018 and 2017 equate the basic earnings per share as the Group had no potential dilutive ordinary shares in issue during the six months ended 31 December 2018 and 2017.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2018, additions of property, plant and equipment amounted to approximately HK$402,000 (six months ended 31 December 2017: HK$730,000).

11. TRADE AND OTHER RECEIVABLES

	As at 31 December 2018 *HK$'000* **(Unaudited)**	As at 30 June 2018 *HK$'000* (Audited)
Trade receivables *(note (a))*	**6,841**	10,428
Less: loss allowance	**(1,030)**	(1,019)
	5,811	9,409
Deposits, prepayments and other receivables		
Deposits	**4,981**	4,612
Prepayments	**2,654**	2,195
Other receivables, net of loss allowance	**837**	1,422
	8,472	8,229
Less: non-current portion		
Deposits paid for acquisition of property, plant and equipment (*note (b)*)	**(2,602)**	(2,255)
Current portion	**11,681**	15,383

(a) Trade receivables

The Group's credit terms granted to customers generally ranged from 0 to 2 months. The Group usually reaches an agreement on the term of each payment with the customer by taking into account of factors such as, among other things, the credit history of the customer, its liquidity position and the Group's working capital needs, which varies on a case-by-case basis that requires the judgement and experience of the management.

The ageing analysis of trade receivables, based on the invoice date, net of loss allowance, is as follows:

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Within 3 months	**5,618**	6,659
Over 3 months but within 6 months	**103**	2,588
Over 6 months but within 1 year	**53**	110
Over 1 year	**37**	52
	5,811	9,409

(b) Deposits paid for acquisition of property, plant and equipment

As at 31 December 2018 and 30 June 2018, the amount represented deposits paid for acquisition of office equipment and plant and machinery. The related capital commitments are set out in Note 13(a) to this announcement.

12. TRADE AND OTHER PAYABLES

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Trade payables	**3,714**	3,886
Marketing services fee payables	**515**	451
Receipt in advance *(note 3.1(b))*	**564**	334
Accruals and other payables	**3,857**	3,675
	8,650	8,346

Payment terms granted by suppliers ranged from 1 to 3 months from the invoice date of the relevant purchases.

The ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Within 3 months	**3,714**	3,885
Over 3 months but within 6 months	**–**	1
	3,714	3,886

13. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group outstanding as at 31 December 2018 not provided for are as follows:

	As at 31 December 2018 *HK$'000* **(Unaudited)**	As at 30 June 2018 *HK$'000* (Audited)
Contracted for:		
– Office equipment	**301**	282
– Plant and machinery	**–**	134
	301	416

In March 2017, the Group has signed a purchase agreement for an office equipment amounted to HK$1,500,000. As at 31 December 2018, a deposit of HK$1,359,000 was paid.

In November 2018, the Group has signed a purchase agreement for an office equipment amounted to HK$320,000. As at 31 December 2018, a deposit of HK$160,000 was paid.

(b) Operating lease commitments

As at 31 December 2018, the total future minimum lease payments payable by the Group under those non-cancellable operating leases is as follows:

	As at 31 December 2018 *HK$'000* **(Unaudited)**	As at 30 June 2018 *HK$'000* (Audited)
Within 1 year	**8,445**	8,233
After 1 year but within 5 years	**4,761**	8,675
	13,206	16,908

The Group leases a number of properties, and items of plant and machinery under operating lease arrangements which run for an initial period of 1 to 5 years (30 June 2018 (audited): 1 to 5 years), with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective lessors. None of the leases include contingent rentals.

14. COMPARATIVE FIGURES

The Group has initially applied HKFRS 9 and HKFRS 15 as at 1 July 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal business of the Group were mainly on manufacturing and sale of apparel labels and packaging printing products to customers which comprised mainly garment manufacturers and garment related accessories trading companies. Most of the sales of the Group's products was ultimately used as labels on or packaging materials for finished garments of the garment brand companies.

The uncertainties of the global economy and the business environment remained challenging for the six months ended 31 December 2018. It resulted in a decrease of the revenue of approximately 19.5% for the six months ended 31 December 2018 while comparing with corresponding six months period for 2017. Gross margin slightly decreased by approximately 1.6 percentage point to approximately 38.8% for the six months ended 31 December 2018 (six months ended 31 December 2017: 40.4%).

OUTLOOK

The recent global geopolitical and economic instability as well as the US-China trade dispute will certainly bring myriad uncertainties to the global economy in the coming year. With all the unfavourable factors and more prudent and conservative business strategies adopted by the clients, the global economy is expected to experience a slowdown. Nevertheless, the Group will continue to enhance its sales effort, the quality of its production and its internal controls, and will strive to implement stringent cost controls to cope with the challenging global market conditions.

In order to diversify the Group's business foundation and maximise the interests of the Group and the shareholders, the Group will continue to explore for suitable and appropriate business opportunities in due course.

FINANCIAL REVIEW

Revenue

Our Group generated revenue mainly from the sale of apparel labels and packaging printing products. The Group's revenue decreased by approximately HK$10.3 million or 19.5% from approximately HK$52.7 million for the six months ended 31 December 2017 to approximately HK$42.4 million for the six months 31 December 2018. Such decrease was primarily due to placing orders by customers cautiously as the uncertainties of the global economy.

Cost of sales and gross profit

Cost of sales over the total revenue of the Group for the six months ended 31 December 2018 was approximately 61.2%. While comparing with same period for 2017 of 59.6%, there was increase of approximately 1.6 percentage points. Such increase was mainly caused by increase of rental expenses of the factory premises and warehouse and depreciation expenses of plant and machinery.

As a result, the gross profit margin for the six months ended 31 December 2018 decreased by approximately 1.6 percentage point to approximately 38.8% (six months ended 31 December 2017: 40.4%). The gross profit for the six months ended 31 December 2018 decreased to approximately HK$16.5 million (six months ended 31 December 2017: HK$21.3 million).

Other income

Other income mainly comprises commission income, net exchange gain and interest income. Increase in other income for the six months ended 31 December 2018 as compared to corresponding period in 2017 was mainly caused by increase in net exchange gain and interest income.

Selling expenses

Selling expenses primarily consist of freight charges, local transportation and marketing service fee. Selling expenses decreased by approximately HK$1.1 million to HK$3.6 million for the six months ended 31 December 2018 as compared to the corresponding period in 2017. Such decrease was mainly caused by decrease of marketing expenses paid for sales and marketing purpose.

Administrative and other operating expenses

Administrative and other operating expenses primarily comprise salaries, office rental, utilities, professional fee, depreciation and other miscellaneous administrative expenses. Administrative and other operating expenses represent approximately 19.9% and 24.2% of the total revenue for the six months ended 31 December 2017 and 2018, respectively. The decrease in administrative and other operating expenses was primarily due to less professional fee and staff costs incurred during the period in 2018.

Profit and total comprehensive income

Profit and total comprehensive income decreased by approximately HK$2.4 million to approximately HK$3.0 million for the six months ended 31 December 2018 as compared with the same period in 2017. The decreases in net profit was primarily due to decrease of revenue and gross profit.

Liquidity and financial information

As at 31 December 2018, the total amount of cash and cash equivalents of the Group was decreased to approximately HK$65.8 million, a decrease of approximately HK$2.8 million compared with that as at 30 June 2018. There was no bank and other borrowings as at 30 June 2018 and 31 December 2018.

The financial resources remained under stringent control with prudently and precisely managed in order to ensure that it maintains sufficient reserves of cash.

As at 31 December 2018, the current ratio (current assets/current liabilities) was 9.71 times (30 June 2018: 10.68 times) and the quick ratio ((current assets-inventories)/current liabilities) was 9.08 times (30 June 2018: 10.19 times).

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital Structure

The capital of the Company comprises ordinary shares and other reserves. The shares of the Company were listed on the Stock Exchange on 18 May 2016. There has been no change in the capital structure of the Company since that date.

Share option

A share option scheme was adopted on 26 April 2016, there was no share options granted during the six months ended 31 December 2018. And there was no outstanding share options granted as at 31 December 2018.

Commitments

The contractual commitments of the Group were primarily related to the leases of its office and factory premises and warehouses, and the purchase of office equipment and plant and machinery. The Group's operating lease commitments amounted to approximately HK$13.2 million as at 31 December 2018 (30 June 2018: approximately HK$16.9 million). The Group has capital commitments of HK$0.3 million as at 31 December 2018 (30 June 2018: HK$0.4 million).

Pledge of assets

As at 31 December 2018, the Group had not pledged any assets (30 June 2018: HK$Nil).

Exposure to foreign exchange risk

The Group mainly carries out of its transactions in United States dollars ("USD") and Hong Kong dollars ("HK$") and mainly of its bank balances are denominated in USD and HK$. As HK$ is pegged to USD, the management does not expect any significant movements in the USD/HK$ exchange rate and considers that the Group does not expose to significant currency risk.

The Group does not hedge its foreign currency risks with USD as the rate of exchange between HK$ and USD is controlled within a tight range. Permanent changes in foreign exchange rates would have an impact on condensed consolidated financial statements. The Management will closely monitor the changes of the rate of exchange and government policies from time to time.

Material contingent liabilities

The Group is not aware of any material contingent liabilities as at 31 December 2018.

USE OF PROCEED

The Company's shares have been listed on the Main Board of the Stock Exchange since 18 May 2016. The receipts of proceeds, net of listing expenses (including underwriting fee), including both recognised in the condensed consolidated statement of profit or loss and other comprehensive income and deducted from the share premium (the "Net Proceeds") from the Company's listing were approximately HK$36,100,000. In accordance with the proposed applications set out in the section headed "Net Proceeds from the Share Offer" of the announcement of offer price and allotment results dated 17 May 2016 (the "Allotment Results"), the Net Proceeds were applied by the Group from the Listing Date up to 31 December 2018 as follows:

Use of Net Proceeds	**Planned use of proceeds as stated in the Allotment Results**	**Actual use of proceeds from the date of listing up to 31 December 2018**	**Unused Amount**
	HK$ million	*HK$ million*	*HK$ million*
Acquisition of one set of six-colour offset printing machine	15.6	10.3	5.3
Expansion of our sales and marketing team	4.2	1.9	2.3
Research and development of the know-how of the application of heat transfer technology	8.8	–	8.8
Upgrade of our ERP system	3.0	2.9	0.1
Expansion and/or upgrading of production facilities or development of potential projects through acquisition or cooperation	3.8	1.0	2.8
Working capital and general corporate purpose	0.7	0.7	–
Total	36.1	16.8	19.3

The business objectives, future plans and planned use of proceeds as stated in the Prospectus and the Allotment Result were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus and the Allotment Result while the proceeds were applied based on the actual development of the Group's business, the actual situation and the industry. The Directors will constantly evaluate the Group's business objective and may change or modify plans against the changing market condition and technology development to ascertain the business growth of the Group. The Directors will also take a cautious approach continually when considering using the proceeds and closely monitor the changes of the market conditions and technology development from time to time.

The unused Net Proceeds have been placed as bank deposits with a licensed bank in Hong Kong as at the date of this announcement.

EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2018, the Group had 92 (30 June 2018: 95) full time management, administrative and operation staff in Hong Kong.

The Group provides competitive remuneration packages with attractive discretionary bonus to employees. The Group regularly reviews its remuneration packages in light of the overall development of the Group as well as the market conditions. In addition, the Group has adopted a share option scheme for eligible employees (including directors) to provide incentives to those with outstanding performance and contribution to the Group.

CORPORATE GOVERNANCE

The Board considers that good corporate governance of the Company is crucial to safeguard the interests of the shareholders of the Company and to enhance the performance of the Group. The Board and management of the Company are committed to enhancing corporate governance standard, in compliance with all relevant provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "Code") as stated in Appendix 14 to the Listing Rules. The Company has, throughout the six months ended 31 December 2018, complied with the relevant provisions of the Code ("Code Provisions"), save for the deviations disclosed below.

Code provision A.2.1 of the Code provides that the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of the chairman and chief executive officer. Mr. Fung Man Wai Samson is the chairman and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive directors.

The Board will continue to review and further improve the Company's corporate governance practices and standards, so as to ensure that its business activities and decision-making processes are regulated in a proper and prudent manner.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Dr. Loke Yu, Ms. Fung Po Yee and Ms. Sung Ting Yee. It is principally responsible for reviewing the accounting principles and practices adopted by the Group, as well as discussing and reviewing with management the internal control, systems of risk management, auditing and financial reporting matters of the Group. The Audit Committee has reviewed the unaudited condensed interim consolidated financial report for the six months ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, neither the Company, nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2018.

REVIEW OF INTERIM RESULTS

The interim financial report for the six months ended 31 December 2018 is unaudited, but has been reviewed by Grant Thornton Hong Kong Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement will be published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.hangsangpress.com. The Interim Report will be despatched to the shareholders and published on the aforesaid websites in due course.

By order of the Board
Hang Sang (Siu Po) International Holding Company Limited
Fung Man Wai Samson
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 22 February 2019

As at the date of this announcement, the executive Directors of the Company are Mr Fung Man Wai Samson, Mr Fung Man Kam and Mr Fung Kar Chue Alexander, and the independent non-executive Directors of the Company are Dr Loke Yu, Ms Fung Po Yee and Ms Sung Ting Yee.