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RM GROUP HOLDINGS LIMITED
御藥堂集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 932)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

FINANCIAL HIGHLIGHTS

	Six months ended		Change %
	30 September		
	2016	2015	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
	(unaudited)	(unaudited)	
Revenue	96,174	97,243	-1.10%
Gross profit	74,000	74,690	-0.92%
EBIT (<i>Note 1</i>)	9,709	13,398	-27.53%
Profit for the period	7,432	10,562	-29.63%
Earnings per share			
Basic (<i>HK cents per share</i>)	1.44	2.05	-29.76%
Diluted (<i>HK cents per share</i>)	1.44	2.03	-29.06%

Note 1: EBIT represents earnings before finance costs and taxation.

The board of Directors (the “Board”) announces that the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2016.

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

For the six months ended 30 September 2016

		For the six months ended 30 September	
	<i>Note</i>	2016	2015
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
REVENUE	4	96,174	97,243
Cost of sales		<u>(22,174)</u>	<u>(22,553)</u>
GROSS PROFIT		74,000	74,690
Other revenue and other net income		219	2,064
Selling and distribution expenses		(18,735)	(19,704)
Administrative expenses		(45,775)	(43,652)
PROFIT FROM OPERATIONS		9,709	13,398
Finance costs	5(c)	<u>(367)</u>	<u>(98)</u>
PROFIT BEFORE TAXATION	5	9,342	13,300
Taxation	6	<u>(1,910)</u>	<u>(2,738)</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		7,432	10,562
OTHER COMPREHENSIVE LOSS FOR THE PERIOD			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>(282)</u>	<u>(268)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>7,150</u>	<u>10,294</u>
EARNINGS PER SHARE			
BASIC (<i>HK CENTS PER SHARE</i>)	8	<u>1.44</u>	<u>2.05</u>
DILUTED (<i>HK CENTS PER SHARE</i>)	8	<u>1.44</u>	<u>2.03</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

		As at 30 September 2016 <i>HK\$'000</i> (unaudited)	As at 31 March 2016 <i>HK\$'000</i> (audited)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	9	53,378	54,382
Intangible assets	10	624	695
Prepayments and deposits	11	2,106	2,422
		56,108	57,499
Current assets			
Inventories		25,276	20,309
Trade and other receivables	11	38,741	49,536
Cash and cash equivalents		111,188	91,958
Bank deposits with maturity greater than three months		–	10,156
Tax recoverable		4,065	5,002
		179,270	176,961
Current liabilities			
Trade and other payables	12	15,427	15,985
Bank loans and overdrafts	13	30,729	36,898
Tax payables		754	–
Provisions		1,312	1,571
		48,222	54,454
Non-current liabilities			
Deferred tax liabilities		626	626
		626	626
Net assets		186,530	179,380
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	5,163	5,163
Reserves		181,367	174,217
TOTAL EQUITY		186,530	179,380

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	PRC statutory reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Retained earnings HK\$'000	
	-	-	-	-	-	-	-	
At 1 April 2016 (audited)	5,163	125,416	(10)	770	(519)	6,864	41,696	179,380
Changes in equity for the six months ended 30 September 2016:								
Profit for the period	-	-	-	-	-	-	7,432	7,432
Other comprehensive loss:								
Exchange differences arising on translation of foreign operations	-	-	-	-	(282)	-	-	(282)
Total comprehensive income for the period	-	-	-	-	(282)	-	7,432	7,150
Share options lapsed	-	-	-	-	-	(1,390)	1,390	-
At 30 September 2016 (unaudited)	<u>5,163</u>	<u>125,416</u>	<u>(10)</u>	<u>770</u>	<u>(801)</u>	<u>5,474</u>	<u>50,518</u>	<u>186,530</u>
At 1 April 2015 (audited)	5,155	123,890	(10)	-	(161)	8,161	43,878	180,913
Changes in equity for the six months ended 30 September 2015:								
Profit for the period	-	-	-	-	-	-	10,562	10,562
Other comprehensive loss:								
Exchange difference arising on translation of foreign operations	-	-	-	-	(268)	-	-	(268)
Total comprehensive income for the period	-	-	-	-	(268)	-	10,562	10,294
Dividends approved in respect of the year ended 31 March 2015 (note 7)	-	-	-	-	-	-	(12,908)	(12,908)
Deemed contribution	-	-	-	-	-	-	192	192
Share options lapsed	-	-	-	-	-	(1,075)	1,075	-
Shares issued under share option scheme	8	1,526	-	-	-	(222)	-	1,312
At 30 September 2015 (unaudited)	<u>5,163</u>	<u>125,416</u>	<u>(10)</u>	<u>-</u>	<u>(429)</u>	<u>6,864</u>	<u>42,799</u>	<u>179,803</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

	For the six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Operating activities		
Cash generated from operations	17,344	20,715
People's Republic of China (the "PRC")		
Enterprise Income Tax paid	<u>(219)</u>	<u>(1,222)</u>
Net cash generated from operating activities	17,125	19,493
Investing activities		
Purchase of property, plant and equipment	(1,267)	(969)
Proceeds from sales of property, plant and equipment	1	–
Purchase of intangible assets	–	(200)
Release of bank deposits with maturity greater than three months	10,156	10,088
Acquisition of a subsidiary, net of cash acquired	–	(19,323)
Bank interest received	<u>33</u>	<u>53</u>
Net cash generated from/(used in) investing activities	<u>8,923</u>	<u>(10,351)</u>
Financing activities		
Repayment of bank loans	(4,532)	(2,535)
Proceeds from new bank loans	–	26,000
Dividends paid to owners of the Company	–	(12,908)
Interest paid	(367)	(98)
Proceeds from shares issued under share option scheme	<u>–</u>	<u>1,312</u>
Net cash (used in)/generated from financing activities	<u>(4,899)</u>	<u>11,771</u>
Net increase in cash and cash equivalents	21,149	20,913
Cash and cash equivalents at beginning of the period	90,321	97,570
Effect of foreign exchange rate changes	<u>(282)</u>	<u>(293)</u>
Cash and cash equivalents at end of the period	<u>111,188</u>	<u>118,190</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

1. CORPORATE INFORMATION

RM Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 5 December 2011. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company has established a principal place of business in Hong Kong at 27/F., The Galaxy, 313 Castle Peak Road, Kwai Chung, Hong Kong and has been registered as a non-Hong Kong company under the Hong Kong Companies Ordinance on 5 April 2012. The Company’s shares have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 11 October 2013. On 20 November 2015, the listing of the shares of the Company has been transferred from the GEM to the Main Board of the Stock Exchange.

The Company is an investment holding company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the sale, marketing and distribution of health and beauty supplements and products in Hong Kong, Taiwan and the People’s Republic of China (the “PRC”). The Group’s products are mainly sold and distributed under its proprietary brand names of the companies within the Group and the private label brands specifically developed for and owned by a renowned chain of health and beauty products in Hong Kong and Macau (the “Distribution Facilitator”).

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 September 2016 have been prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The interim condensed consolidated financial statements has been prepared in accordance with the same accounting policies adopted in the 2015/16 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016/17 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim condensed consolidated financial statements 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.

This interim condensed consolidated financial statements contain 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 2015/16 annual financial statements. The interim condensed consolidated financial statements 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 condensed consolidated financial statements are unaudited, but have been reviewed by CCIF CPA 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. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS 1, Presentation of Financial Statements: Disclosure initiative

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, “Interim Financial Reporting”, has been amended to clarify that if an entity discloses the information required by the standard outside the interim condensed consolidated financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim condensed consolidated financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group’s interim financial report as the Group does not present the relevant required disclosures outside the interim condensed consolidated financial statements.

Amendments to HKAS 1, Presentation of Financial Statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group’s interim condensed consolidated financial statements.

4. REVENUE

The Group is principally engaged in the sale, marketing and distribution of health and beauty supplements and products mainly in Hong Kong, Taiwan and the PRC. The products are mainly sold and distributed under the proprietary brand names of the companies within the Group and the private label brands specifically designated for the Distribution Facilitator.

Revenue represents the invoiced value of sales of health and beauty supplements and products, less sales returns and discounts and value-added tax and other sales taxes for the period. An analysis of revenue is as follows:

	For the six months ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Health supplements	80,298	79,741
Beauty supplements and products	15,160	16,747
Others	716	755
	<u>96,174</u>	<u>97,243</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting) the following:

	For the six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
(a) Staff costs:		
Salaries, allowances, and other benefits (including directors' emoluments)	27,522	24,336
Contributions to defined contribution retirement plans	<u>1,052</u>	<u>1,016</u>
	<u>28,574</u>	<u>25,352</u>
(b) Other items:		
Auditors' remuneration	655	610
Cost of inventories (<i>note</i>)	22,174	22,553
Depreciation on property, plant and equipment	2,184	1,131
Amortisation of intangible assets	71	62
Provision for goods returns	380	965
Exchange gain, net	(97)	(73)
Operating lease charges: minimum lease payment	698	2,022
Net loss on disposal of a subsidiary (<i>note 17</i>)	–	471
Net loss on disposal of property, plant and equipment	86	78
Research and development costs	1,207	1,024
Rent for special designated counters	<u>15,168</u>	<u>12,279</u>
(c) Finance costs:		
Bank overdraft interest	3	4
Interest on bank loans	<u>364</u>	<u>94</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	<u>367</u>	<u>98</u>

Note:

For the six months ended 30 September 2016, cost of inventories includes HK\$2,310,000 (six months ended 30 September 2015: HK\$2,683,000) relating to staff costs, depreciation and provision for goods return, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. TAXATION

	For the six months ended 30 September	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Current tax		
Hong Kong Profits Tax	1,909	1,715
PRC Enterprise Income Tax	–	1,023
Underprovision in respect of prior years		
PRC Enterprise Income Tax	<u>1</u>	<u>–</u>
	<u>1,910</u>	<u>2,738</u>

The provision of Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 September 2016 and 2015.

The provision for PRC Enterprise Income Tax (the “EIT”) is calculated at the standard rate of 25% on the estimated assessable profit for the six months ended 30 September 2016 and 2015 as determined in accordance with the relevant income tax rules and regulations of the PRC.

No provision for profits tax in the Cayman Islands, the British Virgin Island (“BVI”), Malaysia and Taiwan have been made as the Group has no income or profit assessable for tax in these jurisdictions for the six months ended 30 September 2016 and 2015.

Reconciliation between tax expenses and accounting profit at the applicable tax rates:

	For the six months ended 30 September	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Profit before taxation	<u>9,342</u>	<u>13,300</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	1,521	2,514
Tax effect on non-taxable income	(20)	(427)
Tax effect on non-deductible expenses	512	555
Tax effect of tax losses not recognised	359	359
Underprovision in respect of prior years	1	–
Utilisation of tax losses not previously recognised	(290)	(215)
Others	<u>(173)</u>	<u>(48)</u>
Actual tax expense	<u>1,910</u>	<u>2,738</u>

7. DIVIDENDS

At a meeting held on 19 June 2015, the Board recommended the payment of a final dividend of HK2.5 cents per ordinary share of the Company (totalling HK\$12,907,500) for the year ended 31 March 2015 (“2015 Final Dividend”) which was then approved by the shareholders of the Company in the annual general meeting held on 4 August 2015. The 2015 Final Dividend was paid and reflected as an appropriation of retained earnings during the six months ended 30 September 2015.

The board of directors does not recommend any payment of interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company and the weighted average number of ordinary shares in issue, calculated as follows:

(i) Profit for the period attributable to owners of the Company

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>7,432</u>	<u>10,562</u>

(ii) Weighted average number of ordinary shares of the Company (basic)

	For the six months ended 30 September	
	2016	2015
	Number of shares	Number of shares
	(unaudited)	(unaudited)
Issued ordinary shares at beginning of the period	516,300,000	515,500,000
Effect of shares issued under share option scheme	<u>–</u>	<u>743,169</u>
Weighted average number of ordinary shares in issue at the end of the period	<u>516,300,000</u>	<u>516,243,169</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

(i) Profit for the period attributable to owners of the Company

	For the six months ended 30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit for the period	<u>7,432</u>	<u>10,562</u>

(ii) Weighted average number of ordinary shares of the Company (diluted)

	For the six months ended 30 September	
	2016	2015
	<i>Number of shares</i>	<i>Number of shares</i>
	(unaudited)	(unaudited)
Weighted average number of ordinary shares (basic)	516,300,000	516,243,169
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>–</u>	<u>3,110,834</u>
Weighted average number of ordinary shares at the end of the period (diluted)	<u>516,300,000</u>	<u>519,354,003</u>

Diluted earnings per share for the six months ended 30 September 2016 was the same as the basic earnings per share because the computation of diluted earnings per share did not assume the exercises of the Company's outstanding share options as the exercise price of the share options exceeded the average market price of ordinary shares during the period.

9. PROPERTY, PLANT AND EQUIPMENT

	As at 30 September 2016 <i>HK\$'000</i> (unaudited)	As at 31 March 2016 <i>HK\$'000</i> (audited)
Carrying amount at 1 April	54,382	17,615
Additions during the period/year	1,267	7,623
Additions through acquisition of a subsidiary during the period (<i>note 16</i>)	–	34,649
Depreciation provided during the period/year	(2,184)	(3,015)
Disposals during the period/year	(326)	(276)
Derecognised on disposal of a subsidiary	–	(1,508)
Impairment loss	–	(1,271)
Written back on disposals during the period/year	239	148
Written back on disposal of a subsidiary	–	419
Exchange adjustments	–	(2)
	<u>53,378</u>	<u>54,382</u>
Carrying amount at 30 September/31 March	53,378	54,382

The Group's interest-bearing bank loans and overdrafts were secured by the Group's leasehold land and buildings held for own use with carrying amount of HK\$43,924,000 as at 30 September 2016 (as at 31 March 2016: HK\$44,639,000).

10. INTANGIBLE ASSETS

	As at 30 September 2016 <i>HK\$'000</i> (unaudited)	As at 31 March 2016 <i>HK\$'000</i> (audited)
Carrying amount at 1 April	695	629
Additions during the period/year	–	200
Amortisation provided during the period/year	(71)	(134)
	<u>624</u>	<u>695</u>
Carrying amount at 30 September/31 March	624	695

Intangible assets represent the product development rights acquired by the Group.

11. TRADE AND OTHER RECEIVABLES

	As at 30 September 2016 <i>HK\$'000</i> (unaudited)	As at 31 March 2016 <i>HK\$'000</i> (audited)
Trade receivables	23,651	35,015
Less: Allowance for doubtful debts	<u>(139)</u>	<u>(139)</u>
	23,512	34,876
Other receivables	<u>3,236</u>	<u>3,969</u>
Loans and receivables	<u>26,748</u>	<u>38,845</u>
Prepayments	6,439	6,589
Deposits	<u>7,660</u>	<u>6,524</u>
	<u>14,099</u>	<u>13,113</u>
	<u>40,847</u>	<u>51,958</u>
	As at 30 September 2016 <i>HK\$'000</i> (unaudited)	As at 31 March 2016 <i>HK\$'000</i> (audited)
Analysis of trade and other receivables:		
Non-current portion	2,106	2,422
Current portion	<u>38,741</u>	<u>49,536</u>
	<u>40,847</u>	<u>51,958</u>

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis presented based on invoice date as at the end of the reporting period:

	As at 30 September 2016 HK\$'000 (unaudited)	As at 31 March 2016 HK\$'000 (audited)
0-30 days	8,940	17,556
31-60 days	11,493	6,451
61-90 days	2,405	7,102
91-180 days	21	199
181-365 days	12	2,971
Over 365 days	641	597
	<u>23,512</u>	<u>34,876</u>

Trade receivables are normally due within 0-90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted.

12. TRADE AND OTHER PAYABLES

	As at 30 September 2016 HK\$'000 (unaudited)	As at 31 March 2016 HK\$'000 (audited)
Trade payables	5,773	3,745
Salary and welfare payables	5,307	5,866
Accrued advertising expenses	2,081	3,310
Other payables and accruals	2,266	3,064
	<u>15,427</u>	<u>15,985</u>
Financial liabilities measured at amortised cost		

The following is an ageing analysis of trade payables presented based on invoice dates as at the end of the reporting period:

	As at 30 September 2016 HK\$'000 (unaudited)	As at 31 March 2016 HK\$'000 (audited)
0-30 days	2,045	1,253
31-60 days	882	910
61-90 days	244	90
91-180 days	215	1,426
181-365 days	2,321	–
Over 365 days	66	66
	<u>5,773</u>	<u>3,745</u>

13. BANK LOANS AND OVERDRAFTS

The analysis of the carrying amount of bank loans and overdrafts is as follows:

	As at 30 September 2016 HK\$'000 (unaudited)	As at 31 March 2016 HK\$'000 (audited)
Carrying amount of bank loans and overdrafts that contain a repayment on demand clause:		
Repayable within one year	3,115	7,712
Repayable after one year (shown under current liabilities)	27,614	29,186
	<u>30,729</u>	<u>36,898</u>

At 30 September 2016 and 31 March 2016, the bank loans and overdrafts were analysed as follows:

	As at 30 September 2016 HK\$'000 (unaudited)	As at 31 March 2016 HK\$'000 (audited)
Secured bank overdrafts	–	1,637
Secured bank loans	30,729	35,261
	<u>30,729</u>	<u>36,898</u>

The secured bank loans and overdrafts of the Group are secured by the leasehold land and buildings with carrying amount of HK\$43,924,000 as at 30 September 2016 (as at 31 March 2016: HK\$44,639,000).

14. SHARE CAPITAL

	As at 30 September 2016		As at 31 March 2016	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	1,000,000	10,000	1,000,000	10,000
Issued and fully paid:				
At the beginning of the period/year	516,300	5,163	515,500	5,155
Shares issued under share option scheme (note)	—	—	800	8
At the end of the period/year	516,300	5,163	516,300	5,163

Note:

On 14 April 2015, share options were exercised to subscribe for 800,000 ordinary shares in the Company at a consideration of HK\$1,312,000, of which HK\$8,000 was credited to share capital and the balance of HK\$1,304,000 was credited to the share premium account. HK\$222,000 has been transferred from the share option reserve to the share premium account.

15. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provides information about components of the Group. Information reported to the board of directors, being the chief operating decision maker (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on brands of goods delivered.

Specifically, the Group’s reportable and operating segments under HKFRS 8 are as follows:

- Proprietary brands comprise the development, manufacturing and sales of self-developed health supplements
- Proprietary brands comprise the development, manufacturing and sales of self-developed beauty supplements and products
- Private label brands comprise the development, manufacturing and sales of health supplements
- Private label brands comprise the development, manufacturing and sales of beauty supplements and products
- Trading of goods comprise the trading and sales of health supplements
- Trading of goods comprise the trading and sales of beauty supplements and products

Other items mainly relate to the provision of Chinese medical consultation services. These activities are excluded from the reportable operating segments as these activities are insignificant and not specifically reported to the board of directors.

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the board of directors for the purpose of resource allocation and assessment of segment performance for the six months ended 30 September 2016 and 2015 are set out below:

	For the six months ended 30 September 2016 (unaudited)							Total HK\$'000
	Proprietary brands		Private label brands		Trading of goods		Other items HK\$'000	
	Health supplements	Beauty supplements and products	Health supplements	Beauty supplements and products	Health supplements	Beauty supplements and products		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Revenue from external customers	44,038	14,976	29,835	184	6,425	-	716	96,174
Cost of sales	(9,964)	(4,489)	(4,253)	(206)	(3,178)	-	(84)	(22,174)
Gross profit/(loss)	34,074	10,487	25,582	(22)	3,247	-	632	74,000
Selling and distribution expenses	(9,202)	(2,033)	(6,585)	(31)	(519)	-	-	(18,370)
Administrative expenses	(2,716)	(198)	(10,355)	(40)	(1,581)	-	-	(14,890)
Segment results	<u>22,156</u>	<u>8,256</u>	<u>8,642</u>	<u>(93)</u>	<u>1,147</u>	<u>-</u>	<u>632</u>	<u>40,740</u>
Other revenue and other net income								219
Unallocated head office and corporate expenses								(31,250)
Finance costs								(367)
Profit before taxation								<u>9,342</u>

	For the six months ended 30 September 2015 (unaudited)							
	Proprietary brands		Private label brands		Trading of goods		Other items	Total
	Health	Beauty	Health	Beauty	Health	Beauty		
	supplements	and products	supplements	and products	supplements	and products		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue from external customers	55,000	16,040	24,268	657	473	50	755	97,243
Cost of sales	(12,748)	(5,985)	(3,350)	(186)	(128)	(21)	(135)	(22,553)
Gross profit	42,252	10,055	20,918	471	345	29	620	74,690
Selling and distribution expenses	(13,181)	(3,084)	(3,114)	(77)	(56)	(2)	-	(19,514)
Administrative expenses	(2,964)	(106)	(8,517)	(239)	(237)	-	-	(12,063)
Segment results	<u>26,107</u>	<u>6,865</u>	<u>9,287</u>	<u>155</u>	<u>52</u>	<u>27</u>	<u>620</u>	43,113
Other revenue and other net income								2,064
Unallocated head office and corporate expenses								(31,779)
Finance costs								(98)
Profit before taxation								<u>13,300</u>

For the purpose of assessing segment performance and allocating resources between segments, the CODM monitors the results attributable to each reportable segment with reference to sales generated by those segments and the expenses incurred by those segments. Segment results are evaluated based on reportable segment profit/loss, which is a measure of adjusted operating profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that head office, corporate income and expenses and finance costs are excluded from such measurement. No segment assets and liabilities information is presented as, in the opinion of the directors, such information is not key indicator provided to the Group's CODM.

There are no significant inter-segment transfers or transactions.

Other segment information (included in the measure of segment profit or loss or regularly provided to the CODM)

	Amortisation and depreciation	
	For the six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Proprietary brands:		
Health supplements	203	197
Beauty supplements and products	39	34
Private label brands:		
Health supplements	86	64
Beauty supplements and products	1	2
Trading of goods:		
Health supplements	19	1
Beauty supplements and products	–	1
Unallocated	<u>1,907</u>	<u>894</u>
Total	<u>2,255</u>	<u>1,193</u>

(b) Geographical information

The geographical location of customers is based on the location at which the goods are delivered and services provided. In presenting information on the basis of geographical, segments revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets or the location of the operation to which the assets are allocated.

Revenue from external customers

	For the six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Hong Kong	96,061	90,358
The PRC	–	6,698
Taiwan	<u>113</u>	<u>187</u>
	<u>96,174</u>	<u>97,243</u>

Non-current assets

	As at 30 September 2016 HK\$'000 (unaudited)	As at 31 March 2016 HK\$'000 (audited)
Hong Kong (place of domicile)	55,894	57,227
The PRC	192	245
Taiwan	22	27
	<u>56,108</u>	<u>57,499</u>

(c) Information about major customer

Revenues from external customer contributing 10% or more of the total revenue from the Group is as follows:

	For the six months ended 30 September	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Customer A (<i>note (i)</i>)	<u>62,772</u>	<u>65,253</u>

Note:

- (i) The revenues were derived from the following segments:
- Proprietary brands comprise the development, manufacturing and sales of self-developed health supplements;
 - Proprietary brands comprise the development, manufacturing and sales of self-developed beauty supplements and products;
 - Private label brands comprise the development, manufacturing and sales of health supplements;
 - Private label brands comprise the development, manufacturing and sales of beauty supplements and products; and
 - Trading of goods comprise the trading and sales of health supplements.

16. PURCHASE OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF A SUBSIDIARY

On 23 June 2015, the Group entered into sales and purchase agreement with Mr. Chan Yan Tak, the controlling shareholder and an executive director of the Company, to acquire assets and liabilities through the acquisition of 100% equity interest in Royal Richly (Hong Kong) Limited, for a total consideration of HK\$19,410,000. Royal Richly (Hong Kong) Limited is principally engaged in property investment. This transaction was approved by the Company's independent shareholders at the extraordinary general meeting held on 14 August 2015 and the transaction was completed on 11 September 2015.

This acquisition has been accounted for as purchase of assets and liabilities through acquisition of a subsidiary. The assets and liabilities arising from the acquisition were as follows:

	Carrying amount at 11 September 2015 <i>HK\$'000</i>
Leasehold land and buildings held for own use	34,649
Cash and bank balances	87
Deposits and prepayments	56
Other receivables	1,459
Accruals	(44)
Bank loans	<u>(16,797)</u>
Net assets acquired	<u>19,410</u>
Consideration represented:	
Cash consideration	<u>19,410</u>
Net cash outflow arising from the acquisition:	
Cash consideration paid	(19,410)
Cash and bank balances	<u>87</u>
	<u>(19,323)</u>

17. DISPOSAL OF A SUBSIDIARY

On 21 September 2015, the Group disposed of the entire issued share capital in Century Effort Limited (“Century Effort”) to M&H Company Limited, an independent third party, at a cash consideration of HK\$1.

The net liabilities of Century Effort at the date of disposal were as follows:

	<i>HK\$'000</i>
Consideration received:	
Cash received	–
Analysis of assets and liabilities over which control was lost:	
Deposits and other receivables	(1,747)
Other payables	1,886
Net liabilities derecognised	139
Result on disposal of subsidiary:	
Consideration received	–
Net liabilities derecognised	139
Written off of receivables due from subsidiary disposed of	(1,886)
Waiver of payables due to subsidiary disposed of	1,276
Loss on disposal	(471)
Net cash inflow arising on disposal:	
Cash consideration received	–
Cash and cash equivalents disposed of	–

18. COMMITMENTS

(a) Capital commitments

At the end of the reporting period, the Group had capital commitments contracted but not provided for in the financial statements as follows:

	As at 30 September 2016 HK\$'000 (unaudited)	As at 31 March 2016 HK\$'000 (audited)
Contracted for		
– Property, plant and equipment	926	867

(b) **Operating lease commitments**

As lessee

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating lease falling due as follows:

	As at 30 September 2016 <i>HK\$'000</i> (unaudited)	As at 31 March 2016 <i>HK\$'000</i> (audited)
Within one year	1,671	1,150
In the second to fifth year, inclusive	1,650	917
	<u>3,321</u>	<u>2,067</u>

The Group leases warehouses, office premises and shop premises under non-cancellable operating lease arrangements with lease terms of one to five years, with an option to renew the lease when all terms are renegotiated. None of the lease includes contingent rentals.

19. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the interim condensed consolidated financial statements, the Group had the following balances and transactions with its related parties during the period:

(a) **Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees is as follows:

	For the six months ended 30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Short-term employee benefits	6,871	5,051
Post-employment benefits	93	74
	<u>6,964</u>	<u>5,125</u>

(b) **Transactions with related parties**

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Rental expenses paid to a related party (<i>note i</i>)	60	20
Rental expenses paid to Great Victor Limited (<i>note ii</i>)	87	44
Rental expenses paid to Sunex Limited (<i>note iii</i>)	101	–

As at 30 September 2016 and 31 March 2016, the Group had total future minimum lease payments to related parties under non-cancellable operating lease falling due as follows:

	As at 30 September 2016	As at 31 March 2016
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Within one year	445	465
In the second to fifth year	307	538
	752	1,003

Notes:

- (i) The rental expenses were paid to Mr. Cheng Jonathan Chung Shing, a close family member of an independent non-executive director, Mr. Cheng Kwok Kin, Paul.
- (ii) The rental expenses were paid to Great Victor Limited, a company wholly-owned by Mr. Chan Yan Tak, an executive director of the Company.
- (iii) The rental expenses were paid to Sunex Limited, a company wholly-owned by Ms. Wong Chui Lan, senior management of the Group.

(c) **Balances with related parties**

The Group leases office premises from related parties as detailed in note 19(b) under operating lease arrangements with lease terms of two to three years. The terms of the leases require the Group to pay rental deposits to the lessors. The balances of the rental deposits as at 30 September 2016 and 31 March 2016 are detailed as follows:

	As at 30 September 2016 HK\$'000 (unaudited)	As at 31 March 2016 HK\$'000 (audited)
Mr. Cheng Jonathan Chung Shing	20	20
Great Victor Limited	29	29
Sunex Limited	34	34

(d) **Purchase of assets and liabilities through acquisition of a subsidiary from an executive director of the Company**

The details are set out in note 16 to the interim condensed consolidated financial statements.

20. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) **Disposal of 40% equity interest in a subsidiary**

On 22 November 2016, Wisdom Come Medical Group Limited (the “Vendor”), an indirect wholly-owned subsidiary of the Company, has entered into the sale and purchase agreement with Ms. Li Yung (the “Purchaser”), an independent third party, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose 40% of the equity interest of Apex Prospection Limited in the amount of HK\$3,300,000 (the “Sale Shares”) and an amount of loan of HK\$1,200,000 due from a wholly-owned subsidiary of Apex Prospection Limited to the Vendor (the “Sale Loan”), at an aggregate consideration of HK\$4,500,000. The disposal of Sale Shares and Sale Loan has been completed on 23 November 2016.

(b) **Memorandum of understanding of the acquisition of the equity interest in a company incorporated in the British Virgin Islands (the “BVI”)**

On 22 November 2016, the Company entered into a memorandum of understanding with an independent third party (the “Vendor”) for the acquisition of 100% equity interest in Star Root Limited, a company established in the BVI with limited liability. The Company and the Vendor shall negotiate with one another on the amount and payment terms of the consideration of the acquisition in the formal agreement. Pursuant to the memorandum of understanding, the Company shall deposit the refundable earnest money of HK\$5,000,000 into an escrow account with an escrow agent within 14 days upon the signing of the memorandum of understanding. The principal activity of Star Root Limited is engaging in the online advertising agency business. Up to the date of approval of this announcement, there is no formal agreement signed and the transaction is not yet completed.

Further details are set out in the Company’s announcement dated 22 November 2016.

(c) **Exercise of share options**

On 17 November 2016, certain of the eligible participants of the share options scheme exercised the share options granted at an exercise price of HK\$1.64 and 12,300,000 ordinary shares of the Company were issued on 21 November 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, though the overall turnover only slightly decreased when compared with the same period in last year, the net profit decreased significantly primarily due to (i) the substantial decrease of the business operation in the People's Republic of China (the "PRC") as the Group is exploring other business models, distribution channels and opportunities to develop the business after revoking its sole distributorship agreement for the PRC market and (ii) in response to the weak performance of the retail sector in Hong Kong, the Group has incurred more costs in order to maintain the turnover. As a result, the profits attributable to shareholders decreased to HK\$7.4 million from HK\$10.6 million as compared to the same period of last year. Despite all the unfavorable factors, the sales of private label brands of health supplements continue to grow. To further uplift the brand image and increase sales, the Group has launched a new media campaign with a new ambassador to promote the products through various media including TV commercials and we expect to see encouraging result in the near future.

FINANCIAL REVIEW

Revenue

The Group recorded an unaudited revenue of approximately HK\$96.2 million for the six months ended 30 September 2016 (2015: HK\$97.2 million), representing a decrease of approximately HK\$1.0 million or 1.0% over the corresponding period of last year. The Group's revenue attributable to health supplements increased by approximately HK\$0.6 million or 0.8% to HK\$80.3 million (2015: HK\$79.7 million), while its revenue attributable to beauty supplements and products decreased by approximately HK\$1.5 million or 9.0% to HK\$15.2 million (2015: HK\$16.7 million), for the six months ended 30 September 2016.

The Group's revenue attributable to proprietary brands health supplements decreased by approximately HK\$11.0 million or 20.0% to HK\$44.0 million for the six months ended 30 September 2016 (2015: HK\$55.0 million). The decrease in revenue is attributable to weak retail performance and the substantial decrease of the business operation in the PRC.

Revenue attributable to proprietary brands beauty supplements and products decreased by approximately HK\$1.0 million or 6.3% to HK\$15.0 million for the six months ended 30 September 2016 (2015: HK\$16.0 million).

Revenue attributable to private label brands health supplements increased by approximately HK\$5.5 million or 22.6% to HK\$29.8 million for the six months ended 30 September 2016 (2015: HK\$24.3 million). The increase in revenue attributable to private label brands was primarily due to the expansion of the product range and increase in the number of Health Proof special designated counters, which primarily sold health supplements.

Revenue attributable to private label brands beauty supplements and products decreased by approximately HK\$0.5 million or 71.4% to HK\$0.2 million for the six months ended 30 September 2016 (2015: HK\$0.7 million). The decrease is primarily due to the fact that the Group focused resources on marketing the Health Proof products, among the private label brands, which were primarily health supplements.

Revenue attributable to the trading of health supplements amounted to approximately HK\$6.4 million for the six months ended 30 September 2016 (2015: HK\$0.5 million).

Revenue attributable to the trading of beauty supplements and products amounted was nil for the six months ended 30 September 2016 (2015: HK\$50,000).

Gross profit and gross profit margin

Gross profit for the six months ended 30 September 2016 was approximately HK\$74.0 million (2015: HK\$74.7 million), representing a decrease of approximately 0.9% over the corresponding period of last year. The gross profit margin of the Group for the six months ended 30 September 2016 was approximately 76.9% (2015: 76.8%), representing a marginally increase of approximately 0.1 percentage points over the corresponding period of last year.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately HK\$1.0 million or 5.1% to HK\$18.7 million for the six months ended 30 September 2016 (2015: HK\$19.7 million). It was primarily attributable to the drive for cost effectiveness in managing marketing expenses in Hong Kong.

Administrative expenses

The Group's administrative expenses increased by approximately HK\$2.1 million or 4.8% to HK\$45.8 million for the six months ended 30 September 2016 (2015: HK\$43.7 million). It was primarily attributable to the increase in special designated counter rental expense.

Profit for the period

As a result of the foregoing factors, the Group's net profit decreased by approximately HK\$3.2 million to HK\$7.4 million for the six months ended 30 September 2016 (2015: HK\$10.6 million).

FINANCIAL POSITION AND LIQUIDITY

As at 30 September 2016, cash and bank balances of the Group amounted to approximately HK\$111.2 million (As at 31 March 2016: HK\$102.1 million). The current ratio (current asset divided by current liabilities) of the Group was 3.7 times as at 30 September 2016 (As at 31 March 2016: 3.2 times). The Group's gearing ratio, representing total borrowings divided by total equity, was approximately 16.5% as at 30 September 2016 (As at 31 March 2016: approximately 20.6%). In view of the Group's current level of cash and bank balances, funds generated internally from our operations and the unutilised banking facilities available, the Board is confident that the Group will have sufficient resources to meet its financial needs for its operations. As at 30 September 2016, the Group has unutilised general banking facilities of approximately HK\$14.8 million. The Group is exposed to foreign currency risk primarily through purchases that are denominated in a currency other than the functional currency of the operations to which they related. The currencies giving rise to this risk are primarily United States dollars and Renminbi. In view of the current measures undertaken by the PRC Government to devalue the Renminbi, management will continue to manage and monitor such currency exposure to ensure appropriate measures are implemented in a timely and effectively manner.

CAPITAL MANAGEMENT

The Group's objectives in managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate. The Group also monitors capital on the basis of the net gearing ratio. The Group's overall strategy remains unchanged throughout the period of review.

EMPLOYEE INFORMATION

As at 30 September 2016, the Group had 174 employees (As at 31 March 2016: 157). For the six months ended 30 September 2016, staff costs including directors' emoluments was approximately HK\$28.6 million (six months ended 30 September 2015: HK\$25.4 million).

MATERIAL ACQUISITIONS OR DISPOSALS

Save as disclosed in note 16 and 17 to the interim condensed consolidated financial statements, there was no other material acquisition and disposal of subsidiaries, associated companies and joint ventures during the period of review.

CONTINGENT LIABILITIES

As at 30 September 2016 and 31 March 2016, the Group had no material contingent liabilities.

CHARGES ON ASSETS

As at 30 September 2016, the Group had secured bank loans and overdrafts of approximately HK\$30.7 million (As at 31 March 2016: HK\$36.9 million). The banking facilities are secured by the Group's land and buildings, having carrying amount of approximately HK\$43.9 million as at 30 September 2016 (As at 31 March 2016: HK\$44.6 million).

CAPITAL COMMITMENT

As at 30 September 2016 and 31 March 2016, the Group did not have significant capital commitment.

INTERIM DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

OUTLOOK

Hong Kong Market

During the first half of the financial year, the retail sector has been greatly affected by China's economic slowdown as well as the decrease of Mainland tourists visiting Hong Kong. In the face of current challenging environment, the Group remains cautiously optimistic towards the performance of the second half of the financial year ended 31 March 2017. The Group will continue to broaden its customer base, strengthen cost and quality control and enhance marketing and promotion activities to increase competitiveness of its brands and its products.

The Group has closed down another Chinese Medicine clinic in Jordan in early November 2016, following the disposal of the flagship Chinese Medicine clinic in March 2016, to curb the losses incurred in this business line.

To further enhance the quality standard and image, the Group is planning to apply accreditation like ISO22000 and Hazard Analysis and Critical Control Point ("HACCP") for its food factory in Hong Kong as well as upgrading its own Chinese medicine plant from packaging-only to include the full production. The new plant is expected to commence operation next year, and the Group expect to reduce part of the existing subcontracting costs.

Overseas Market

To expand its Taiwan market, the Group will sign a new contract with a new non-exclusive distributor, whose extensive network in drug chain stores may potentially and possibly expand our sales network after the Group discontinued its cooperation with the existing distributor by the end of November 2016. In addition to the traditional drug chain stores, the Group is currently developing its e-commerce sales network.

The Group has obtained the HALAL certification recently, which enables the Group to sell certain of its products in most of the South East Asia. The application for the Thailand Food and Drug Administration's is still in process but temporarily paused due to the death of the King of Thailand.

On 22 November 2016, the Group disposed 40% of an indirect wholly-owned subsidiary together with a shareholder's loan due to the Group on a pro rata basis for an aggregate consideration of HKD4.5 million. The subsidiary concerned is principally engaged in the distribution of health and beauty supplements in the PRC. As disclosed in the 2015/16 annual report of the Company, the Group entered into a supplemental agreement with its existing sole distributor of its certain brands and products in the PRC in order to revoke its sole-distributorship status. As a result there has been a significant drop in the net profit for the six months ended 30 September 2016 as compared to that of the same period in 2015 as disclosed in the announcement of the Group dated 1 November 2016, one of the reasons was due to the substantial decrease of the business operation in the PRC as the Group is exploring other business models, distribution channels and opportunities to develop the business after revoking the sole distributorship agreement. The Directors consider that the disposal presents a good opportunity for the Company to engage a new strategic business and investment partner for potential and possible enhancement of the Group's product distribution business in the PRC.

Collaboration with CUCAMed Company Limited

The Group is committed to improve the existing products as well as strengthen the quality control. Therefore, in addition to the existing collaboration with CUCAMed Company Limited (the "CUCAMed") in developing new health supplements, the Group has signed a memorandum of understanding with CUCAMed in October 2016 to establish a jointly owned laboratory in Hong Kong to research and develop new Chinese medicines and health products.

During the period, no new product under "LEGEND" brand was launched.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress for the period from 1 April 2015 onwards is set out as below:

Business objectives for the period from 1 April 2015 onwards as stated in the Prospectus

Actual business progress up to 30 September 2016

Expansion of distribution network	Set up 1 new SDC	The Group continues to identify suitable stores of the Distribution Facilitator to set up SDCs. 1 Health Proof SDC was set up during the six months ended 30 September 2016. The Group had 37 SDCs including 17 Royal Medic SDCs and 20 Health Proof SDCs as at 30 September 2016.
	Employ more promoters	The Group continues to employ promoters and employed 102 promoters as at 30 September 2016 (As at 30 September 2015: 93).
Collaboration with CUCAMed to develop products	Launch more new health supplements under the brand of "LEGEND"	No new product under "LEGEND" brand was launched during the six months period ended 30 September 2016.
	Engaging brand ambassadors to promote the products	The contract of a brand ambassador to promote the products under "LEGEND" expired in May 2016.
	Strengthen the Group's branding and marketing strategies through various media and channels	The Group continues to promote its products launched under "LEGEND" through various media and channels, such as television commercials and printed media in Hong Kong.
		The Group has signed a memorandum of understanding with CUCAMed in October 2016 to establish a jointly owned laboratory in Hong Kong to research and develop new Chinese medicines and health products.
		The Group collaborated with a university, conducted two scientific researches for the purpose of the development of new health supplements.

**Business objectives for the period from 1 April 2015
onwards as stated in the Prospectus**

Actual business progress up to 30 September 2016

Expanding overseas markets	Engaging brand ambassadors in Taiwan	After the expiry of the contract of a brand ambassador in Taiwan, the Group began to promote the Group's products in Taiwan using the same brand ambassadors as used in Hong Kong.
	Recruiting more promoters and strengthen the Group's branding and marketing strategies through various media and channels in Taiwan	The Group will sign a new contract with a new non-exclusive distributor, whose extensive network in drug chain stores may potentially and possibly expand our sales network after the group discontinued its cooperation with the existing distributor by the end of November 2016. In addition to the traditional drug chain stores, the Group is currently developing its e-commerce sales network.
	Continue to explore the opportunities in other overseas markets	<p>The Group has obtained the HALAL certification recently, which enables the Group to sell certain of its products in most of the South East Asia.</p> <p>The application for the Thailand Food and Dining Administrations is still in process but temporarily paused due to the death of the King of Thailand.</p> <p>On 22 November 2016, the Group disposed 40% of an indirect wholly-owned subsidiary together with a shareholder's loan due to the Group on a pro rata basis for an aggregate consideration of HKD4.5 million. The Directors consider that the disposal presents a good opportunity for the Company to engage a new strategic business and investment partner for potential and possible enhancement of the Group's product distribution in the PRC.</p>

The planned use of proceeds as stated in the Prospectus were based on the best estimation of future market conditions and development made by the Group at the time of preparing the Prospectus while the proceeds were applied in accordance with the actual development of the market. During the period from 1 April 2016 to 30 September 2016, the net proceeds from issuance of new shares of the Company by way of placing had been applied as follows:

	Planned use of proceeds as stated in the Prospectus		Actual use of proceeds		Total amount utilised up to 30 September 2016 HK\$'000
	Total HK\$'000	1 April 2015 onwards HK\$'000	11 October 2013 to 31 March 2016 HK\$'000	1 April 2016 to 30 September 2016 HK\$'000	
Expansion of distribution network	5,950	3,950	948	1,532	2,480
Collaboration with CUCAMed to develop products	47,600	28,650	6,289	1,517	7,806
Expanding overseas markets	41,650	22,443	1,558	581	2,139
Enhancing the Group's marketing and promotion activities in Hong Kong	13,090	4,233	13,090	–	13,090
General working capital	10,710	3,210	10,710	–	10,710
	<u>119,000</u>	<u>62,486</u>	<u>32,595</u>	<u>3,630</u>	<u>36,225</u>

Possible change in use of proceeds

Unutilized Net Proceeds from Listing

The net proceeds from the placing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 11 October 2013 (the "Listing") were approximately HK\$119 million after deducting listing related expenses. As at 30 September 2016, approximately HK\$36.2 million out of such net proceeds from the Listing has been utilized according to the business plans as depicted in the prospectus of the Company and approximately HK\$82.8 million out of such net proceeds remain unutilized mainly due to

1. the slowdown of the Taiwan economy forced the Group to adopt a more prudent expansion plan including engaging local distributors rather than establishing its own sales team and to engage the ambassador as in Hong Kong after the expiry of the contract terms with the ambassador in Taiwan; and
2. the pace of launching of new products under the "LEGEND" brand has been much slower than what the Group has anticipated originally.

Possible Change in Use of Net Proceeds

Owing to the weak performance of the retail sector in Hong Kong, there has been a significant drop in the net profit for the six months ended 30 September 2016. The Directors have been carefully evaluating the circumstances and exploring other opportunities to increase the profitability of the Group amid the weakened retail sales, which may involve reallocating the net proceeds from the Listing to other future plans and/or to new projects of the Group, including but not limited to, acquiring new profitable businesses as long as the Directors consider such acquisitions to be in the interests of the Company and the Shareholders as a whole.

The Company shall not exclude the possibility of applying the net proceeds to the possible acquisition as indicated in the announcement of the Company dated 22 November 2016 in relation to a memorandum of understanding with Saffron Production Company Limited concerning the possible acquisition of 100% equity interest of Star Root Limited.

Save as disclosed above, the Company has not yet identified any new acquisition targets nor entered into any agreements with any third parties in relation to such expansion plans. If there are any material developments with respect to such expansion plans, the Company will make further announcement(s) in accordance with the Listing Rules as and when appropriate and necessary.

Further announcement(s) in respect of any possible change in use of net proceeds will be made by the Company as and when appropriate and necessary.

PRINCIPAL RISKS AND UNCERTAINTIES

Based on the Group's risk management system, the Group has examined all of the possible risks and uncertainties that might affect the Group and considered that the most important risks and uncertainties would include:

Regulatory risks

The health supplement industry in Hong Kong generally believes that changes in regulatory policies and laws in respect of the monitoring and control of food and health supplement products which include Chinese medicinal ingredients may be proposed and implemented by the authorities concerned in the coming years. Significant effect may impact on the future development of health supplements as well as the food industry. If the Group fails to keep up and comply with these changes, such factors would affect the Group's success.

The Group has closely monitored the regulatory changes, strengthened its interpretation and analysis capability of regulatory policies and would adjust strategies in advance to cope with the ever changing operating environment.

Prolonged economic downturn

The Group's business is closely related to the economic conditions of Hong Kong. Slowing economic growth or a recession may affect consumer preferences and spending which in turn could have a material adverse effect on the Group's business, operational results and financial conditions.

In response to these challenges, the Group will actively implement effective cost control measures, including reduction of administration costs, bargaining with suppliers for a better pricing as well as establishing its own facilities to reduce subcontracting costs. The Group will also continue to roll out more new products and open up more distribution channels, and plan to further expand its business outside Hong Kong.

Failure to introduce successful new products

Owing to the rapid changing nature of the health and beauty supplements products markets in Hong Kong, if the Group fails to anticipate market trends and develop new products to respond to such trends in a timely manner, it will adversely affect its business in the long term.

In addition to the Group's own product development and collaboration with external research partners, the Group is also actively looking for opportunities to collaborate with different reputable universities to conduct researches for the purpose of developing new products. Besides researches, the Group also will continue to place strong emphasis on a multifaceted market strategy through utilising various media and channels to promote its brands and products.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the period of six months ended 30 September 2016 (Period of six months ended 30 September 2015: Nil).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The board of directors has commenced its preparation to address the new Stock Exchange requirements for the environmental, social and governance reporting. Relevant information will be incorporated in the forthcoming published annual report.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of good corporate governance to the Company's growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs. Throughout the period of six months ended 30 September 2016, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "Code", amended from time to time) contained in Appendix 14 of the Listing Rules except the deviation from the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chan Yan Tak is currently the chairman of the Board and the chief executive officer of the Company. Mr. Chan has been responsible for the overall management and strategic development of the Group since 2005. His expert knowledge in the areas of development and retail marketing of health and beauty supplement products has assisted the Group to grow substantially during the past years. The Board therefore considers that it is beneficial to and in the interest of the Group for Mr. Chan to continue with his roles as the chairman of the Board and chief executive officer of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (“MODEL CODE”)

The Company has adopted the Model Code (amended from time to time) as set out in Appendix 10 of Listing Rules as the code of conduct regarding directors’ securities transactions in the securities of the Company. Upon the Company’s specific enquiry, each director of the Company has confirmed that they fully complied the required standards set out in the Model Code under the Listing Rules throughout the period of six months ended 30 September 2016, and there is no event of non-compliance. Senior managers, other nominated managers and staff who, because of their offices in the Group, are likely to be in possession of inside information of the Company, have been requested to comply with the provisions of the Model Code under the Appendix 10 to the Listing Rules.

INTEREST OF THE COMPLIANCE ADVISERS

As notified by WAG Worldsec Corporate Finance Limited (“WAG”), the Company’s compliance adviser, neither WAG nor its directors or employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 9 August 2016.

Pursuant to the terms of agreement dated 9 October 2013 entered into between WAG and the Company, the appointment of WAG as Compliance Adviser ended on 9 August 2016 in compliance with GEM Listing Rule 6A.19.

AUDIT COMMITTEE

The audit committee of the Company (“Audit Committee”), is currently comprised of the four independent non-executive Directors, namely Mr. CHENG Kwok Kin, Paul (Chairman), Prof. NG Ka Ming, Ms. SZETO Wai Ling, Virginia and Mr. LEUNG Winson Kwan Yau (appointed on 24 October 2016), for the purpose of reviewing and providing, *inter alia*, supervision over the Group’s financial reporting, internal control and risk management system with written terms of reference in compliance with the Listing Rules.

At the request of the Audit Committee, the Company’s auditor, CCIF CPA Limited, had carried out a review of the unaudited interim financial information of the Group for the six months period ended 30 September 2016 (the “2016/2017 Interim Results”) 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. 2016/2017 Interim Results has also been reviewed by the Audit Committee.

APPROVAL OF INTERIM REPORT

The interim report and the unaudited interim condensed consolidated results of the Group for the six months ended 30 September 2016 were approved and authorised for issue by the Board on 25 November 2016.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Company at www.royalmedic.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The 2016/2017 Interim Report will be published and despatched in the manner as required by the Listing Rules in due course.

By Order of the Board
RM Group Holdings Limited
Chan Yan Tak
Chairman

Hong Kong, 25 November 2016

As at the date of this announcement, the executive directors of the Company are Mr. CHAN Yan Tak, Mr. WONG Mau Tai, Mr. LEE Chi Hang, Sidney, Mr. LIM Ming Shing, Tony, Mr. WONG Ping Yiu and Mr. WANG Xihua; and the independent non-executive directors of the Company are Prof. NG Ka Ming, Mr. CHENG Kwok Kin, Paul, Ms. SZETO Wai Ling, Virginia and Mr. LEUNG Winson Kwan Yau.