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 2017

FINANCIAL HIGHLIGHTS

	Six months ended 30 September		
	2017	2016	**Change %**
	HK$'000	*HK$'000*	
	(unaudited)	(unaudited)	
Revenue	**112,428**	96,174	**16.90%**
Gross profit	**77,636**	74,000	**4.91%**
EBIT *(Note 1)*	**(1,501)**	9,709	**-115.46%**
(Loss)/profit for the period attributable to:			
Owners of the Company	**(1,181)**	7,432	**-115.89%**
Non-controlling interests	**(1,491)**	–	**N/A**
(Loss)/earnings per share attributable to owners of the Company for the period *(expressed in HK cents per share)*			
Basic	**(0.22)**	1.44	**-115.28%**
Diluted	**(0.22)**	1.44	**-115.28%**

Note 1: EBIT represents (loss)/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 2017.

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

For the six months ended 30 September 2017

		For the six months ended 30 September	
		2017	2016
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
REVENUE	*4*	**112,428**	96,174
Cost of revenue		**(34,792)**	(22,174)
GROSS PROFIT		**77,636**	74,000
Other revenue and other net loss		**(1)**	219
Selling and distribution expenses		**(21,422)**	(18,735)
Administrative expenses		**(60,583)**	(45,775)
Fair value change of contingent consideration payable	*15*	**2,869**	–
(LOSS)/PROFIT FROM OPERATIONS		**(1,501)**	9,709
Finance costs	*5(c)*	**(471)**	(367)
(LOSS)/PROFIT BEFORE TAXATION	*5*	**(1,972)**	9,342
Taxation	*6*	**(700)**	(1,910)
(LOSS)/PROFIT FOR THE PERIOD		**(2,672)**	7,432
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**382**	(282)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(2,290)**	7,150
(LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**(1,181)**	7,432
Non-controlling interests		**(1,491)**	–
		(2,672)	7,432

	Note	For the six months ended 30 September	
		2017	2016
		HK$'000	*HK$'000*
		(unaudited)	(unaudited)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**(944)**	7,150
Non-controlling interests		**(1,346)**	–
		(2,290)	7,150
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR THE PERIOD (EXPRESSED IN HK CENTS PER SHARE)			
– BASIC	*8(a)*	**(0.22)**	1.44
– DILUTED	*8(b)*	**(0.22)**	1.44

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Note	**As at 30 September 2017** *HK$'000* **(unaudited)**	As at 31 March 2017 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment	*9*	**121,802**	54,314
Intangible assets	*10*	**188,592**	2,752
Prepayments and deposits	*12*	**1,361**	707
Goodwill	*11*	**154,375**	–
		466,130	57,773
Current assets			
Inventories		**30,813**	27,183
Trade and other receivables	*12*	**62,193**	70,146
Cash and cash equivalents		**24,914**	110,218
Tax recoverable		**760**	764
		118,680	208,311
Current liabilities			
Trade and other payables	*13*	**79,999**	16,632
Borrowings	*14*	**48,850**	30,565
Tax payable		**3,100**	2,129
Provisions		**1,333**	1,345
		133,282	50,671
Non-current liabilities			
Deferred tax liabilities		**31,264**	589
Contingent consideration payable	*15*	**153,311**	–
Unsecured notes	*16*	**5,500**	–
Amount due to a non-controlling interest		**1,200**	1,200
		191,275	1,789
Net assets		**260,253**	213,624
EQUITY			
Equity attributable to owners of the Company			
Share capital	*17*	**5,286**	5,286
Reserves		**205,814**	206,758
		211,100	212,044
Non-controlling interests		**49,153**	1,580
TOTAL EQUITY		**260,253**	213,624

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

1. CORPORATE INFORMATION

RM Group Holdings Limited (the "Company") was incorporated and domiciled 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") and provision of online advertising agency and online payment services. The Group's health and beauty supplements and 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 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for contingent consideration payable, which is measured at fair value, as appropriate.

Except as described below and note 3, the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 September 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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 annual financial statements for the year ended 31 March 2017. 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 Crowe Horwath (HK) 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. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this announcement.

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

4. REVENUE

The Group is principally engaged in the sale, marketing and distribution of health and beauty supplements and products in Hong Kong, Taiwan and the PRC and provision of online advertising agency and online payment services.

Revenue represents the invoiced value of sales of health and beauty supplements and products, and provision of online advertising agency and online payment services, net of returns, discounts, value-added tax and other sales taxes for the period. An analysis of revenue is as follows:

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Health and beauty supplements and products	**109,169**	96,174
Online advertising agency business	**3,249**	–
Online payment business	**10**	–
	112,428	96,174

5. (LOSS)/PROFIT BEFORE TAXATION

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

		For the six months ended 30 September	
		2017	2016
		HK$'000	*HK$'000*
		(unaudited)	(unaudited)
(a)	**Staff costs:**		
	Salaries, allowances, and other benefits (including directors' emoluments)	**33,711**	27,522
	Contributions to defined contribution retirement plans	**1,267**	1,052
		34,978	28,574
(b)	**Other items:**		
	Auditors' remuneration	**975**	655
	Cost of inventories *(note)*	**31,977**	22,174
	Depreciation of property, plant and equipment	**2,615**	2,184
	Amortisation of intangible assets	**2,883**	71
	Provision for goods returns	**627**	380
	Exchange loss/(gain), net	**139**	(97)
	Operating lease charges: minimum lease payments	**1,608**	698
	Net loss on disposal of property, plant and equipment	**115**	86
	Research and development costs	**1,446**	1,207
	Rent for special designated counters	**17,449**	15,168
(c)	**Finance costs:**		
	Bank overdraft interest	**–**	3
	Interest on bank loans	**328**	364
	Interest on unsecured notes	**28**	–
	Interest on other borrowings	**115**	–
	Total interest expenses on financial liabilities not at fair value through profit or loss	**471**	367

Note:

For the six months ended 30 September 2017, cost of inventories includes HK$2,953,000 (six months ended 30 September 2016: HK$2,310,000) relating to staff costs, depreciation and provision for goods returns, 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	
	2017	2016
	HK$’000	*HK$’000*
	(unaudited)	(unaudited)
Current taxation		
Hong Kong Profits Tax	**1,269**	1,909
(Overprovision)/underprovision in respect of prior years		
PRC Enterprise Income Tax	**(105)**	1
Deferred taxation		
Reversal of temporary differences	**(464)**	–
	700	1,910

The provision of Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 September 2017 and 2016.

No provision for PRC Enterprise Income Tax (the “EIT”) has been made as the Group has no assessable profit under EIT for the six months ended 30 September 2017 and 2016.

No provision for profits tax in the Cayman Islands, the British Virgin Island (“BVI”), Malaysia, Macau 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 2017 and 2016.

7. DIVIDENDS

The board of directors does not recommend any payment of interim dividend for the six months ended 30 September 2017 (six months ended 30 September 2016: Nil).

8. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

(i) (Loss)/profit for the period attributable to owners of the Company

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/profit attributable to owners of the Company for the period	**(1,181)**	7,432

(ii) Weighted average number of ordinary shares in issue (basic)

	For the six months ended 30 September	
	2017	2016
	Number of shares	Number of shares
	(unaudited)	(unaudited)
Weighted average number of ordinary shares in issue for the purpose of basic (loss)/earnings per share	**528,600,000**	516,300,000

(b) Diluted (loss)/earnings per share

Diluted loss per share for the six months ended 30 September 2017 equals to basic loss per share as there were no potential dilutive ordinary share outstanding during the six months ended 30 September 2017.

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 2017 *HK$'000* **(unaudited)**	As at 30 September 2016 *HK$'000* (unaudited)
Carrying amount at the beginning of the period	**54,314**	54,382
Additions during the period	**907**	1,267
Additions through acquisition of subsidiaries during the period *(note 19 and 20)*	**69,310**	–
Depreciation provided during the period	**(2,615)**	(2,184)
Disposals during the period	**(115)**	(87)
Exchange adjustments	**1**	–
Carrying amount at the end of the period	**121,802**	53,378

10. INTANGIBLE ASSETS

	As at 30 September 2017 *HK$'000* **(unaudited)**	As at 30 September 2016 *HK$'000* (unaudited)
Carrying amount at the beginning of the period	**2,752**	695
Acquisition of subsidiaries *(note 20(a) and 20(b))*	**188,723**	–
Amortisation provided during the period	**(2,883)**	(71)
Carrying amount at the end of the period	**188,592**	624

Intangible assets represent the licensing agreements arising from acquisition of Star Root Limited ("Star Root") and Empire Access Limited ("Empire Access"), product development rights and club membership acquired by the Group.

11. GOODWILL

	As at 30 September 2017 *HK$'000* (unaudited)
Carrying amount at the beginning of the period	–
Acquisition of Star Root *(note 20(a))*	**41,002**
Acquisition of Empire Access *(note 20(b))*	**113,373**
Carrying amount at the end of the period	**154,375**

12. TRADE AND OTHER RECEIVABLES

	As at 30 September 2017 *HK$'000* (unaudited)	As at 31 March 2017 *HK$'000* (audited)
Trade receivables	**38,297**	41,810
Less: Allowance for doubtful debts	**(162)**	(162)
	38,135	41,648
Other receivables	**3,084**	4,324
Loans and receivables	**41,219**	45,972
Prepayments	**7,351**	5,154
Utility, trade and other deposit	**14,984**	14,727
Deposits paid for potential acquisition	**–**	5,000
	22,335	24,881
	63,554	70,853

	As at 30 September 2017 *HK$'000* (unaudited)	As at 31 March 2017 *HK$'000* (audited)
Analysis of trade and other receivables:		
Non-current portion	**1,361**	707
Current portion	**62,193**	70,146
	63,554	70,853

As of the end of the reporting period, the ageing analysis of trade receivables based on invoice date were as follows:

	As at 30 September 2017	As at 31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0-30 days	**7,077**	28,758
31-60 days	**17,551**	8,036
61-90 days	**13,128**	4,842
91-180 days	**253**	12
181-365 days	**126**	–
	38,135	41,648

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.

13. TRADE AND OTHER PAYABLES

	As at 30 September 2017	As at 31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables	**2,233**	3,142
Salary and welfare payables	**6,315**	5,671
Accrued advertising expenses	**3,050**	3,533
Other payables and accruals	**8,401**	4,286
Consideration payable for acquisition of subsidiaries *(Note 19(a) and 20(b))*	**60,000**	–
Financial liabilities measured at amortised cost	**79,999**	16,632

As of the end of the reporting period, the ageing analysis of trade payables based on invoice date were as follows:

	As at 30 September 2017 *HK$'000* **(unaudited)**	As at 31 March 2017 *HK$'000* (audited)
0-30 days	**1,184**	2,442
31-60 days	**649**	603
61-90 days	**172**	26
181-365 days	**157**	–
Over 365 days	**71**	71
	2,233	3,142

14. BORROWINGS

	As at 30 September 2017 *HK$'000* **(unaudited)**	As at 31 March 2017 *HK$'000* (audited)
Bank borrowings:		
Bank loans, secured	**29,650**	30,565
Other borrowings:		
Other borrowings, secured	**19,200**	–
	48,850	30,565

The bank borrowings and other borrowings are repayable as follows:

	As at 30 September 2017 *HK$'000* (unaudited)	As at 31 March 2017 *HK$'000* (audited)
Bank borrowings:		
On demand	**29,650**	30,565
Other borrowings:		
Within 1 year or on demand	**19,200**	–
	48,850	30,565

The Group's interest-bearing bank loans are secured by the leasehold land and buildings held for own use with carrying amount of HK$42,496,000 as at 30 September 2017 (as at 31 March 2017: HK$43,211,000).

The Group's interest-bearing other borrowings of the Group are secured by the leasehold land and buildings held for own use with carrying amount of HK$26,790,000 as at 30 September 2017 (as at 31 March 2017: Nil).

15. CONTINGENT CONSIDERATION PAYABLE

The contingent consideration payable of the Group represented the contingent consideration to be settled following the acquisition of Empire Access (as detailed in note 20(b)) in the form of promissory notes to be issued by the Company depending on the achievement of the target revenue and/or net profit of the subsidiaries of Empire Access, N Dimension Limited ("N Dimension") and Hoi On Technology Limited ("Hoi On") for each performance year from 22 September 2017 to 21 September 2021 as defined by the supplemental sale and purchase agreement dated 15 September 2017 in relation to the acquisition of Empire Access by the Company. The movement of the fair value of contingent consideration payable is as follows:

	As at 30 September 2017 *HK$'000* (Unaudited)
At fair value:	
At the beginning of the period	–
Arising from acquisition of Empire Access *(note 20(b))*	**156,180**
Fair value change	**(2,869)**
At the end of the period	**153,311**

16. UNSECURED NOTES

In August 2017, the Company issued unsecured notes of HK$5,500,000. The unsecured notes carry coupon rate of 5% per annum, payable annually in arrears. The principal amount of the unsecured note is repayable in August 2020.

17. SHARE CAPITAL

	As at 30 September 2017		As at 30 September 2016	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
		(unaudited)		(unaudited)
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 and the end of the period	**528,600**	**5,286**	516,300	5,163

18. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the board of directors of the Company, being the Group's chief operating decision maker ("CODM") for the purposes of resources allocation and performance assessment, the Group has presented the following reportable segments.

— Development, manufacturing and sales of health and beauty supplements and products

— Online advertising agency business

— Online payment business

During the current period, in view of the significance of the newly acquired businesses, the CODM revised the organisation of segments based on revenue contribution from its products and service lines so as to enhance operational efficiency, and considered to group the reportable and operating segments in prior years, namely (i) proprietary brands comprising the development, manufacturing and sales of self-developed health supplements; (ii) proprietary brands comprising the development, manufacturing and sales of self-developed beauty supplements and products; (iii) private label brands comprising the development, manufacturing and sales of health supplements; (iv) private label brands comprising the development, manufacturing and sales of beauty supplements and products; (v) trading of goods comprising the trading and sales of health supplements; (vi) trading of goods comprising the trading and sales of beauty supplements and products and (vii) other items relating to the provision of Chinese medical consultation services and provision of health food processing services, into a single operating segment. The comparatives have been restated.

During the six months ended 30 September 2017, the Group introduced two new reportable and operating segments, online advertising agency business and online payment business, as a result of the acquisition of Star Root and Empire Access.

Segment revenue, results, assets and liabilities

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating segment profit/(loss). The segment (loss)/profit before tax is measured consistently with the Group's (loss)/profit before tax except for other revenue and other net loss, fair value change of contingent consideration payable, finance costs and unallocated head office and corporate expenses.

Segment assets exclude tax recoverable, unallocated cash and cash equivalents and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, unsecured notes, deferred tax liabilities, contingent consideration payable, consideration payable and other unallocated corporate liabilities as these liabilities are managed on a group basis.

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resources allocation and assessment of segment performance for the six months ended 30 September 2017 and 2016 is set out below:

	For the six months ended 30 September 2017 (unaudited)				
	Development, manufacturing and sales of health and beauty supplements and products	**Online advertising agency business**	**Online payment business**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
Revenue from external customers	**109,169**	**3,249**	**10**	**–**	**112,428**
Inter-segment revenue	**–**	**600**	**–**	**(600)**	**–**
	109,169	**3,849**	**10**	**(600)**	**112,428**
Segment results	**12,696**	**(3,694)**	**(214)**	**–**	**8,788**
Other revenue and other net loss					**(1)**
Fair value change of contingent consideration payable					**2,869**
Finance costs					**(471)**
Unallocated head office and corporate expenses					**(13,157)**
Loss before taxation					**(1,972)**

	For the six months ended 30 September 2016 (unaudited)(restated)			
	Development, manufacturing and sales of health and beauty supplements and products	Online advertising agency business	Online payment business	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:				
Revenue from external customers	96,174	–	–	96,174
Segment results	14,844	–	–	14,844
Other revenue and other net income				219
Finance costs				(367)
Unallocated head office and corporate expenses				(5,354)
Profit before taxation				9,342

	As at 30 September 2017 (unaudited)			
	Development, manufacturing and sales of health and beauty supplements and products	**Online advertising agency business**	**Online payment business**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Segment assets	**154,139**	**57,814**	**289,992**	**501,945**
Segment liabilities	**51,432**	**43**	**1,521**	**52,996**

	As at 31 March 2017 (restated)			
	Development, manufacturing and sales of health and beauty supplements and products	Online advertising agency business	Online payment business	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	265,320	–	–	265,320
Segment liabilities	49,742	–	–	49,742

19. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Giant Bloom Holdings Limited

On 7 September 2017, the Group entered into a sale and purchase agreement with an independent third party vendor to acquire 100% equity interest in Giant Bloom Holdings Limited, for a total cash consideration of HK$39,000,000. Giant Bloom Holdings Limited is principally engaged in property investment. The transaction was completed on 13 September 2017. This acquisition has been accounted for as an acquisition of assets through acquisition of a subsidiary.

	HK$'000
Total consideration:	
– Cash consideration paid	34,000
– Consideration payable *(note 13)*	5,000
	39,000

Assets acquired at the date of acquisition are as follows:

	HK$'000 (unaudited)
Leasehold land and buildings held for own use	39,000

Net cash outflow arising from the acquisition:	
Cash consideration paid	(34,000)
	(34,000)

(b) Acquisition of Super Value Sporting Goods Company Limited

On 7 September 2017, the Group entered into a sale and purchase agreement with three independent third party vendors to acquire 100% equity interest in Super Value Sporting Goods Company Limited, for a total cash consideration of HK$27,000,000. Super Value Sporting Goods Company Limited is principally engaged in property investment. The transaction was completed on 13 September 2017. This acquisition has been accounted for as an acquisition of assets through acquisition of a subsidiary.

Assets acquired at the date of acquisition are as follows:

	HK$'000 (unaudited)
Leasehold land and buildings held for own use	26,834
Deposits and prepayments	166
	27,000
Net cash outflow arising from the acquisition:	
Cash consideration paid	(27,000)
	(27,000)

20. BUSINESS COMBINATIONS

(a) Acquisition of Star Root

On 9 January 2017, the Company entered into a sale and purchase agreement with an independent third party vendor to acquire the entire equity interest of Star Root, a company incorporated in the BVI, at a cash consideration of HK$50,000,000. Star Root and its subsidiary (65% equity interest held by Star Root) are principally engaged in the online advertising agency business. The management considers that such acquisition will enable the Group to partner with and access to an online information platform in Hong Kong and PRC to expand the sales and advertising channels for the Group's products, provide an additional income and cash flow stream for the Group and further diversify the Group's overall business. The acquisition was completed on 13 April 2017.

	HK$'000
Purchase consideration:	
– Cash consideration paid	50,000

Recognised amounts of identifiable assets acquired and liabilities assumed:

	HK$'000 (unaudited)
NON-CURRENT ASSETS	
Plant and equipment	196
Intangible assets	16,410
CURRENT ASSETS	
Trade and other receivables	274
Cash and cash equivalents	70
CURRENT LIABILITIES	
Trade and other payables	(400)
NON-CURRENT LIABILITIES	
Deferred tax liabilities	(2,708)
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	13,842
Goodwill arising on acquisition	41,002
Non-controlling interests	(4,844)
TOTAL CONSIDERATION	50,000
Net cash outflow on acquisition of Star Root:	
Cash consideration paid	(50,000)
Deposit	5,000
Cash and cash equivalents acquired	70
Net cash outflow on acquisition of the subsidiary	(44,930)

The non-controlling interests in Star Root recognised at the acquisition date was measured with reference to the non-controlling interests' proportionate share of the fair value of net assets of Star Root at that date.

The transaction costs of approximately HK$66,000 have been excluded from the consideration transferred and included in 'administrative expenses' in the interim condensed consolidated statement of profit or loss and other comprehensive income.

The goodwill arising from the acquisition of Star Root is attributable to the future growth and profitability in relation to the online advertising agency business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Star Root and its subsidiary contributed HK$3,249,000 to the Group's total revenue and approximately HK$3,217,000 loss to the Group's loss after tax, for the period between the date of acquisition and the end of the reporting period.

If the acquisition of Star Root had been completed on 1 April 2017, the Group's total revenue and loss after tax for the period would have been HK$112,428,000 and HK$3,228,000 respectively. The proforma information is for illustrative purposes only and is not necessarily an indication of the total revenue and loss after tax of the Group that actually would have been achieved had the acquisition been completed on 1 April 2017, nor is intended to be a projection of future results.

(b) Acquisition of Empire Access

At 30 June 2017, the Company entered into a sale and purchase agreement with four independent third party vendors (the "Vendors") to acquire the entire equity interest of Empire Access for a total cash consideration of HK$270,000,000. On 15 September 2017, the Company entered into a supplemental agreement with the Vendors pursuant to which the total consideration was revised and adjusted downward to not more than HK$240,000,000, which comprises fixed cash consideration of HK$60,000,000 and contingent consideration to be settled in the form of promissory note issued by the Company (as detailed in note 15). Empire Access and its subsidiary (70% equity interest held by Empire Access) are principally engaged in the business of provision of WeChat Pay cross border solutions to Tenpay Payment Technology Company Limited, an integrated online payment platform, and the retail merchants in Hong Kong. The management considers that such acquisition will enable the Group to enter into the mobile payment industry which will provide an additional income and cash flow stream to the Group and further diversify the Group's overall business. The acquisition was completed on 21 September 2017.

In accordance with the cooperation agreements in relation to the option granted to N Dimension by the existing shareholders of Hoi On, it allows N Dimension to exercise a call option to acquire 100% equity interest in Hoi On at a fixed exercise price of HK$10,526. As a result, for accounting purpose, it has been determined that the existence of the option has given the Group full access to the economic benefits and risks associated with the actual ownership of the non-controlling interests. Therefore, Hoi On has been accounted for as a wholly-owned subsidiary without non-controlling interests as at 21 September 2017.

The potential undiscounted amount of all future payments that the Group shall pay under this arrangement is between Nil and HK$180,000,000.

As at 30 September 2017, there was fair value change of contingent consideration payable of HK$2,869,000 (note 15) recognised in the interim condensed consolidated statement of profit or loss and other comprehensive income for the contingent consideration payable due to the change in discount rate applied.

The fair value of the contingent consideration payable of HK$156,180,000 as at 21 September 2017 was estimated by applying the income approach. The fair value estimates are based on a discount factor of 7.8% and revenue of HK$8,395,000 for the year from 22 September 2017 to 21 September 2018, revenue of HK$43,281,000 for the year from 22 September 2018 to 21 September 2019 and net profit of HK$25,687,000 for the year from 22 September 2019 to 21 September 2020. This is a level 3 fair value measurement.

Consideration transferred:

	HK$'000
Purchase consideration:	
– Cash consideration paid	5,000
– Consideration payable *(note 13)*	55,000
– Contingent consideration payable *(note 15)*	156,180
Total consideration	216,180

Recognised amounts of identified assets acquired and liabilities assumed:

	HK$'000
NON-CURRENT ASSETS	
Plant and equipment	3,280
Intangible assets	172,313
CURRENT ASSETS	
Trade and other receivables	169
Cash and cash equivalents	915
CURRENT LIABILITIES	
Trade and other payables	(1,363)
NON-CURRENT LIABILITIES	
Deferred tax liabilities	(28,432)
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	146,882
Goodwill arising on acquisition	113,373
Non-controlling interests	(44,075)
TOTAL CONSIDERATION	216,180
Net cash outflow on acquisition of Empire Access:	
Cash consideration paid	(5,000)
Cash and cash equivalents acquired	915
Net cash outflow on acquisition of the subsidiary	(4,085)

The non-controlling interests in Empire Access recognised at the acquisition date was measured with reference to the non-controlling interests' proportionate share of the fair value of net assets of Empire Access at that date.

The transaction costs of approximately HK$3,225,000 have been excluded from the consideration transferred and included in 'administrative expenses' in the interim condensed consolidated statement of profit or loss and other comprehensive income.

The goodwill arising from the acquisition of Empire Access is attributable to the future growth and profitability in relation to the online payment business. None of the goodwill recognised is expected to be deductible for income tax purposes.

Empire Access and its subsidiaries contributed HK$10,000 to the Group's total revenue and approximately HK$214,000 loss to the Group's loss after tax, for the period between the date of acquisition and the end of the reporting period.

If the acquisition of Empire Access had been completed on 1 April 2017, the Group's total revenue and loss after tax for the period would have been HK$112,690,000 and HK$6,161,000 respectively. The proforma information is for illustrative purposes only and is not necessarily an indication of the total revenue and loss after tax of the Group that actually would have been achieved had the acquisition been completed on 1 April 2017, nor is intended to be a projection of future results.

21. 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 2017	As at 31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Contracted for		
– Property, plant and equipment	**1,502**	125

(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 2017	As at 31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within one year	**5,232**	2,197
In the second to fifth year, inclusive	**6,433**	1,474
	11,665	3,671

The Group leases warehouses, office premises and car parks 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.

22. MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and senior management are as follows:

	For the six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term employee benefits	**7,871**	6,871
Post-employment benefits	**107**	93
	7,978	6,964

23. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Grant of share options

On 30 October 2017, 36,800,000 options were granted to certain eligible participants. The exercise price of the share options and the closing price of the shares of the Company immediately before the date on which these share options were granted were HK$6.80 and HK$6.80 respectively.

(b) Placing of convertible bonds

On 12 October 2017, the Company completed the placing of the convertible bonds in the aggregate principal amount of HK$265 million. The convertible bonds, which are convertible into 56,989,247 conversion shares at the conversion price of HK$4.65 per conversion share if all the convertible bonds are being converted into conversion shares within the first anniversary of the date of their issuance or are convertible into 66,250,000 conversion shares at the conversion price of HK$4.00 per conversion share if all the convertible bonds are being converted into conversion shares after the first anniversary of the date of their issuance, have been successfully placed by the placing agent to six placees.

(c) Proposed share subdivision

On 27 October 2017, the board of directors proposed that each of the existing issued and unissued shares of HK$0.01 each in the share capital of the Company will be subdivided into four subdivided shares of HK$0.0025. The proposed share subdivision will become effective on the business day immediately following the date in which the ordinary resolution in respect of the proposed share subdivision is passed in the extraordinary general meeting. The extraordinary general meeting will be held on 4 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

The Group is principally engaged in the formulating, marketing, sales and distribution of health and beauty supplements and products mainly in Hong Kong, the People's Republic of China (the "PRC") and Taiwan. Due to the continuously weak performance of the retail sector in Hong Kong over the past two years, the Group actively expanded the sales and marketing channels of products in order to increase the market share and enlarge existing core business of the Group. For the sake of continuous business development, in April 2017, the Group started its participation in the operation of gd.qq.com in Hong Kong through its subsidiary Tenfok Asia to enter into the Hong Kong and PRC online advertising agency business. Furthermore, the Group commenced the operation of its WeChat cross-border payment business through completion of the acquisition of a 70% interest in N Dimension in September 2017. The Group believes that apart from the positive impact on the Company's future financial performance, the new businesses will also bring new opportunities to the Group amid the sluggish condition of retail sector in Hong Kong.

The Group recorded an unaudited revenue of approximately HK$112.4 million for the six months ended 30 September 2017 (2016: HK$96.2 million), representing an increase of approximately HK$16.2 million or 16.9% over the corresponding period of last year. In addition to the core health and beauty supplements and products business of turnover of HK$109.2 million, the Group has recorded a turnover of HK$3.2 million from the newly acquired online advertising agency and online payment businesses during the period.

The gross profit margin of the Group for the six months ended 30 September 2017 was approximately 69.1% (2016: 76.9%), representing a decrease of approximately 7.8% over the corresponding period of last year. Such decrease was mainly due to the change in sales composition in the health and beauty supplements and products segment. In addition, an amount of HK$2.8 million in relation to the amortization of intangible assets arising from acquisition of online advertising agency business was also included here.

Owing to the continuous business development, the Group has incurred a significant increase in (i) the one-off legal and professional fees mainly in relation to the new acquisitions and (ii) the number of headcounts including both senior management and general staff. Together with a decrease in gross profits margins in the health and beauty supplements and products business and the newly acquired online advertising agency and online payment businesses are at running-in period and incurred losses, the Group incurred a loss attributable to owners of the Company of approximately HK$1.2 million for the six months ended 30 September 2017 as compared to the profit of HK$7.4 million of the same period in 2016.

Health and Beauty Supplements and Products segment

Revenue of Health and Beauty Supplements and Products segment

During the first half of the financial year, the retail sector though not significant, has been slowly recovered. Coupled with utilizing more digital marketing platform, this segment recorded an aggregate segment revenue of approximately HK$109.2 million for the six months ended 30 September 2017 (2016: HK$96.2 million), representing an increase of approximately HK$13.0 million or 13.5% over the corresponding period of last year.

Revenue attributable to proprietary brands maintained at a similar level at approximately HK$59.6 million for the six months ended 30 September 2017 (2016: HK$59.0 million). Of which the revenue attributable to the health supplements decreased by approximately HK$3.2 million or 7.3% to HK$40.8 million (2016: HK$44.0 million), while the revenue attributable to beauty supplements and products increased by approximately HK$3.8 million or 25.3% to HK$18.8 million (2016: HK$15.0 million), for the six months ended 30 September 2017.

Revenue attributable to private label brands increased by approximately HK$4.2 million or 14.0% to HK$34.2 million for the six months ended 30 September 2017 (2016: HK$30.0 million). The increase in revenue attributable to private label brands was primarily due to the expansion of the products range and engagement of a brand ambassador to promote the private brand health supplements in Hong Kong.

Revenue attributable to the trading of health supplements amounted to approximately HK$13.1 million for the six months ended 30 September 2017 (2016: HK$6.4 million).

Results of Health and Beauty Supplements and Products segment

Owing to the increase in the segment turnover, the gross profits for the six months ended 30 September 2017 was also increased to HK$77.2 million (2016: HK$74.0 million). However, the gross margin ratio was decreased from approximately 76.9% in the same period of last year to this period of 70.7% because of the change in sales composition.

The segment's selling and distribution expenses was also increased in line with increase in segment turnover for the six months ended 30 September 2017. It was mainly due to additional resources has been employed by the Group to conduct digital marketing through bloggers and KOLs (key opinion leaders) in addition to the traditional marketing media so as to broaden the customer base. The administrative expenses of this segment also increased as well primarily due to the increase in special designated counter rental expense.

As a result, the segment profits decreased by HK$2.1 million to approximately HK$12.7 million (2016: HK$14.8 million), representing a decrease of approximately 14.2% over the corresponding period of last year.

Online Advertising Agency and Online Payment Business segments

Two new business lines are still at the running-in period and have incurred losses during the period since the completion of acquisition for online advertising agency business and online payment business took place on 13 April 2017 and 21 September 2017 respectively. But the performances are already on the right track recently and we are positive towards a better result in the coming second half of the financial year.

During the first half of the financial year, the revenue attributable to the online advertising agency business and online payment business are approximately HK$3.2 million and HK$0.01 million respectively, with segment losses of approximately HK$3.7 million and HK$0.2 million respectively.

FINANCIAL POSITION AND LIQUIDITY

As at 30 September 2017, cash and bank balances of the Group amounted to approximately HK$24.9 million (As at 31 March 2017: HK$110.2 million). The current ratio (current asset divided by current liabilities) of the Group was approximately 0.9 times as at 30 September 2017 (As at 31 March 2017: 4.1 times). The Group's gearing ratio, representing total borrowings divided by total equity, was approximately 21.3% as at 30 September 2017 (As at 31 March 2017: approximately 14.9%). On 12 October 2017, the Group completed the placing of the convertible bonds in the aggregate principal amount of HK$265.0 million. The net proceeds from the placing of the convertible bonds are approximately HK$250.0 million and intended to be applied in any potential acquisitions by the Company relating to (i) its principal business or (ii) any online or e-commerce technology businesses including but not limited to the acquisition under the acquisition agreement dated 30 June 2017 in relation to the WeChat corss-border payment business and for general working capital of the Company. In view of the Group's current level of cash and bank balances, funds generated internally from our operations and the unutilized banking facilities available, the Board is confident that the Group will have sufficient resources to meet its financial needs for its operations. 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 order to manage and minimize the foreign currency risk, the management will continue to manage and monitor such currency exposure to ensure appropriate measures are implemented in a timely and effective 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 maximizing the return to the shareholders through the optimization 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 2017, the Group had 188 employees (As at 31 March 2017: 169). For the six months ended 30 September 2017, staff costs including directors' emoluments was approximately HK$35.0 million (six months ended 30 September 2016: HK$28.6 million).

MATERIAL ACQUISITIONS OR DISPOSALS

Save as disclosed in note 19 and 20 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

Save as disclosed in note 15, as at 30 September 2017 and 31 March 2017, the Group had no material contingent liabilities.

CHARGES ON ASSETS

As at 30 September 2017, the Group had secured bank loans and other borrowings of approximately HK$29.7 million (As at 31 March 2017: HK$30.6 million) and HK$19.2 million (As at 31 March 2017: Nil) respectively. The banking facilities are secured by the Group's leasehold land and buildings, having carrying amount of approximately HK$42.5 million as at 30 September 2017 (As at 31 March 2017: HK$43.2 million). The other borrowings are secured by the Group's leasehold land and buildings, having carrying amount of approximately HK$26.8 million as at 30 September 2017 (As at 31 March 2017: Nil).

CAPITAL COMMITMENT

Save as disclosed in note 21, as at 30 September 2017, 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 2017 (six months ended 30 September 2016: Nil).

OUTLOOK

Health and Beauty Supplements and Products segment

Hong Kong Market

In order to recruit new generation customers and increase the market share in today's digital world, the Group will continue to shift more resources from the traditional marketing platform to digital marketing. In addition, more online live events that can attract interactive communications will also be engaged to advertise and promote our products.

The quality management accreditation for the existing food factory is on scheduled and estimated to be obtained in the first quarter of 2018. Nevertheless, for the Chinese medicine factory, instead of just upgraded to full production only, the Group would like to achieve a higher standard in order to provide better quality products to the customers, therefore, the completion date is delayed to the end of 2018.

Overseas markets

The Group has contracted a non-exclusive distributor with extensive network in drug chain stores in Taiwan and simultaneously started its e-commerce sales network in April 2017. However, the performance is still not satisfactory and the Group is rethinking the next step for the development of this market. For the Southeast Asia regions, various applications in registration and licensing are still in progress.

Collaboration with CUCAMed Company Limited

The laboratory collaborated with CUCAMed Company Limited ("CUCAMed") in Hong Kong to research and develop new Chinese medicines and health products has commenced operation in September of 2017. During the period, no new product under the "LEGEND" brand was launched. However, one new product is scheduled to be launched in early 2018.

Online Advertising Agency and Online Payment Business segment

Getting Well-positioned for the Development of Online Advertising Agency and Online Payment Business in Hong Kong and China from Diversified Aspects

An era of internet and mobile commerce has come for the global economy. In order to grasp the opportunities in the market, the Group has always been in earnest pursuit of various business opportunities for developing and diversifying our business. In 2017, the Group engaged in the operation of gd.qq.com in Hong Kong through its subsidiary Tenfok Asia and became its exclusive advertising business partner and content operator, thereby successfully marching into the online advertising agency business in Hong Kong and China, with an aim to set a foothold in China and Hong Kong while having a global perspective on the market among Chinese in overseas.

By leveraging the platform of gd.qq.com, the Group can, on the one hand, further introduce our health and beauty supplements and products into Mainland market via the enormous advertising marketing network; on the other hand, it can also expand its online business and develop other income sources by operating Hong Kong station of gd.qq.com, so as to diversify its business and achieve sustainable growth.

At its initial period, Hong Kong station of gd.qq.com mainly comprises six business modules, i.e. entertainment, property and finance, sports, tourism, pets and education. Since the launch, the Hong Kong station has been rapidly expanded to 10 modules, including health, fashion, infant care and E-sports. The Group will continue to invest resources to enrich the website content, and aim to expand the website into 30 business modules. By absorbing a huge number of users from extensive user facets, which in turn benefiting the development of the platform, we believe our advertising revenues will be increased greatly.

Being the one and only inter-network information website in Mainland China, the Hong Kong station of gd.qq.com can directly attract the tremendous domestic website traffic of Tencent news group, facilitating advertising clients in Hong Kong to access to Tencent's advertising platform, and thereby distributing the advertising messages more easily to customers across the nation. Hong Kong station of gd.qq.com further introduces the live streaming of hit events, such as large-scale boxing matches and singing contests with higher audience rating in Mainland China, and develops more diversified online promotion methods to address the need of the current market and help to better catering for the demands and consumption pattern of consumers.

The Group expects that the monthly view rates of Hong Kong station of gd.qq.com will continue to increase, which will help to attract more advertising clients outside Hong Kong and explore the market in the Southeast Asia, thereby further boosting the increase of our advertising revenues.

As announced by the Company on 21 September 2017, the Group has completed the acquisition of a 70% interest in N Dimension which is principally engaged in the WeChat cross-border payment business in Hong Kong. As per statistics released by the Hong Kong Monetary Authority, the total value of Stored Value Facilities (SVF) transactions was HK$31.8 billion for Q2 2017, up 6.2% from the previous quarter. In view of rapid growth of mobile commerce, the rising popularity of mobile payment among the PRC population, the stable number of visitors from the PRC and their consumption expenditure, the Group believes that there will be potential growth in demand in its WeChat cross-border payment service. Subsequent to the completion of the acquisition, the Group endeavors to continue growing this new business by way of expanding its sales efforts, forming collaboration with other market players or further acquisition(s) of suitable target company(ies) that complement the Group's direction of development. In addition to the existing cross-border payment solution, the Group is expected to actively participate in WeChat Pay's "Hong Kong Wallet" upon its launch.

By leveraging the rising popularity of gd.qq.com in both Mainland China and Macau, together with the fast-developing of internet economy nowadays, the Group is highly optimistic about the business prospect of Hong Kong station of gd.qq.com, and WeChat cross-border payment business in Hong Kong. The Group will continue to explore a more profound cooperation with Tencent in future, such as participation in WeChat cross-border payment business in Southeast Asia, WeChat Pay's "Hong Kong Wallet", and the like. Capitalizing on the brand awareness, we will be able to enhance our competitiveness. The Group will stay align with the market development of online advertising agency and online payment businesses, and at the same time, it will keep alert on the opportunity of business development and expansion so as to further increase the market share.

Diversification of business operations

The sluggish retail market in Hong Kong is leading to a difficult operating environment for the Group's business over the past two years. In view of the above, the Board has been actively exploring business opportunities outside of the Group's principal business in health and beauty supplements and products with an aim to improve the Group's financial performance and enhance shareholders' return. Leveraging on the completion of acquisition of businesses in the Hong Kong station of gd.qq.com and WeChat payment during the period under review, the Group shall explore other opportunities, with particular focus on e-commerce, offline and online payment that may create synergies with the Group's principal business in health and beauty supplements and products.

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 2017
Expansion of distribution network	Set up about 2-3 new SDCs	The Group continues to identify suitable stores of the Distribution Facilitator to set up SDCs, 2 Royal Medic SDCs and 3 Health Proof SDCs were set up during the six months ended 30 September 2017. The Group had 42 SDCs including 19 Royal Medic SDCs and 23 Health Proof SDCs as at 30 September 2017.
	Employ more promoters	The Group continues to employ promoters and employed 93 promoters as at 30 September 2017 (As at 31 March 2017: 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 2017.
	Engaging brand ambassadors to promote the products	After the contract of a brand ambassador expired in May 2016, no new ambassador was engaged to promote the products under "LEGEND".

Business objectives for the period from 1 April 2015 onwards as stated in the Prospectus		Actual business progress up to 30 September 2017
	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 digital and printed media in Hong Kong.
		The laboratory collaborated with CUCAMed in Hong Kong to research and develop new Chinese medicines and health products has commenced operation in September of 2017.
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 has contracted a non-exclusive distributor with extensive network in drug chain stores in Taiwan and simultaneously started its e-commerce sales network in April 2017. However, the performance is still not satisfactory and the Group is rethinking the next step for the development of this market.
	Continue to explore the opportunities in other overseas markets	For the Southeast Asia regions, various applications in registration and licensing are still in progress.

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 2017 to 30 September 2017, the net proceeds from issuance of new shares of the Company by way of placing had been applied as follows:

	Planned use of proceeds				Actual use of proceeds		
	As stated in the Prospectus Total	Change in use of proceeds during the year ended 31 March 2017	Change in use of proceeds during the six months period ended 30 September 2017	Use of proceeds after change	11 October 2013 to 31 March 2017	1 April 2017 to 30 September 2017	Total amount utilised up to 30 September 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Expansion of distribution network	5,950			5,950	5,225	725	5,950
Collaboration with CUCAMed to develop products	47,600	(25,000)	(13,285)	9,315	8,370	945	9,315
Expanding overseas markets	41,650	(25,000)	(13,196)	3,454	2,773	681	3,454
Enhancing the Group's marketing and promotion activities in Hong Kong	13,090			13,090	13,090		13,090
Acquisition of Star Root Limited		50,000		50,000	5,000	45,000	50,000
Acquisition of Giant Bloom Holdings Limited			26,481	26,481		26,481	26,481
General working capital	10,710			10,710	10,710		10,710
	119,000	–	–	119,000	45,168	73,832	119,000

CHANGE IN USE OF PROCEEDS AND USE OF PROCEEDS

Reference to the announcements dated 9 January 2017 and 18 April 2017. As at 30 September, 2017, the Company utilized HK$45.0 million out of the unutilized proceeds concerning product development and expansion of overseas market as part of the consideration of the acquisition of 100% equity interest of Star Root Limited.

Reference to the announcements dated 31 August 2017, 7 September 2017, 11 September 2017 and 13 September 2017. As at 30 September 2017, the Company utilized HK$26.5 million out of the unutilized proceeds concerning product development and expansion of overseas market as part of the consideration of acquisition of 100% equity interest of Giant Bloom Holdings Limited.

Up to 30 September 2017, 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 has been fully utilized.

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 maybe 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. Slow 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 closely monitor the changing economic conditions and also actively implement effective measures to control the administration and production costs. The Group will also continue to roll out more new products and open up more distribution channels, and diversify its business to improve the Group's overall performance.

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, such as with CUCAMed to promote and sell products developed by CUCAMed under the brand "LEGEND", 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 utilizing various media and channels to promote its brands and products.

Macro-economic condition, PRC tourist spending and payment habits

The health of the Group's WeChat cross-border payment business relies significantly on the number of PRC tourists visiting Hong Kong and their ensuing spending habit using WeChat Pay as the payment gateway. Should there be any adverse change in macro-economic condition, the number of PRC tourists visiting Hong Kong or their spending or a change in habit using WeChat Pay, the Group's business may be adversely affected. Also, regulatory or other changes in the PRC such as a major outbreak of disease that affects the number of inbound PRC tourists to Hong Kong will have similar adverse impact. However, the Group believes that this online payment business is still at a start-up stage with growth potential so the Group will closely monitor the development in this business sector.

Competition

At present, there are various WeChat Pay service providers and agents operating in Hong Kong. With number of available merchant shops in Hong Kong being a relatively stable figure, there is intense competition between these service providers and agents. Should these service providers and agents actively engage in price competition, the Group may be forced to follow suit and its business, operational results and financial conditions may accordingly be adversely affected. However, the Group believes that this online payment business is still at a start-up stage with growth potential so the Group will closely monitor the development in this business sector.

Operational risk

The Group's online payment business is heavily dependent on the stable operation of its IT systems including system software, processing systems, telecommunications networks, cloud servers as well as systems provided by third parties. Such mission critical services are susceptible to risks attributable to system outage, data loss or breach in security. Should such a situation occur, payments made to the merchant shops may not be properly processed and may expose the Group to liability to third parties. The Group shall closely monitor such risks, and periodically consider and implement measures such as system/software updates, redundancy, and subcontracting suitable and competent third party vendors.

Industry and technological changes

The Group's online advertising agency and online payment businesses are characterised by rapid technological changes, frequent and numerous product introductions and enhancements, continually evolving industry security standards and rapidly changing customers' requirements. The success of the Group in these business segments depends to a large extent upon the Group's continued ability to offer its online advertising agency and payment businesses within this environment and to meet changing market requirements, including conformity with applicable standards.

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 2017 (Period of six months ended 30 September 2016: Nil).

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 2017, 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 Group's principal business of development, manufacturing and sales of health and beauty supplements and products has assisted the Group to grow substantially over the past ten 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 2017, 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.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee"), is currently comprised of the four independent non-executive Directors, namely Mr. LEUNG Winson Kwan Yau (Chairman), Ms. SZETO Wai Ling, Virginia, Mr. TAM Kin Yip and Mr. LEUNG Man Loon (appointed on 11 September 2017), 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, Crowe Horwath (HK) CPA Limited, had carried out a review of the unaudited interim financial information of the Group for the six months period ended 30 September 2017 (the "2017/2018 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. The 2017/2018 Interim Results have 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 2017 were approved and authorised for issue by the Board on 30 November 2017.

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 2017/2018 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, 30 November 2017

As at the date of this announcement, the executive directors of the Company are Mr. CHAN Yan Tak, Mr. LEE Chi Hang, Sidney, Mr. WONG Ping Yiu, Mr. WANG Xihua, Mr. LAI Wei Lam, William, Mr. SO Kevin Hoi Chak and Mr. LIAO Zhe; and the independent non-executive directors of the Company are Ms. SZETO Wai Ling, Virginia, Mr. LEUNG Winson Kwan Yau, Mr. TAM Kin Yip and Mr. LEUNG Man Loon.