



瑞年國際
Real Nutraceutical

瑞年國際有限公司

REAL NUTRICEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2010

Professional Devotion to Health

INTERIM REPORT 2014



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Corporate Information

DIRECTORS

Executive Directors

Mr. Wang Fucai
(*Chairman and Chief Executive Officer*)
Mr. Yu Yan
Mr. Li Lin
Mr. Yi Lin
Mr. Zhang Yan
Ms. Au-yeung Kam Ling Celeste

Non-executive Directors

Mr. Ip Tak Chuen, Edmond
Mr. Tsang Sze Wai, Claudius

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

AUDIT COMMITTEE

Dr. Wong Lung Tak Patrick, BBS, J.P.
(*Chairman*)
Dr. Fong Chi Wah
Mr. Xu Hua Feng

REMUNERATION COMMITTEE

Dr. Fong Chi Wah (*Chairman*)
Mr. Wang Fucai
Dr. Wong Lung Tak Patrick, BBS, J.P.
Mr. Xu Hua Feng

NOMINATION COMMITTEE

Mr. Wang Fucai (*Chairman*)
Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Poon Yick Pang, Philip

AUTHORISED REPRESENTATIVES

Ms. Au-yeung Kam Ling Celeste
Mr. Poon Yick Pang, Philip

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28th Floor
The Hennessy
256 Hennessy Road
Wan Chai, Hong Kong

Financial Highlights

For the six months ended 30 June

	2014 RMB'000	2013 RMB'000	Change %
Turnover	1,053,385	1,000,603	5.3%
Gross profit	750,342	686,736	9.3%
Profit attributable to owners of the Company	355,535	284,503	25.0%
Basic earnings per share (cents)	31.7	25.3	25.3%
Declared interim dividend (HK cents)	3.0	2.5	20.0%



Report on Review of Condensed Consolidated Financial Statements

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF REAL NUTRICEUTICAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Real Nutraceutical Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 6 to 31, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Report on Review of Condensed Consolidated Financial Statements

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Turnover		1,053,385	1,000,603
Cost of goods sold		(303,043)	(313,867)
Gross profit		750,342	686,736
Other income		29,324	19,173
Other gains and losses		9,302	–
Selling and distribution costs		(238,602)	(241,790)
Administrative expenses		(47,277)	(52,566)
Interest on bank borrowings wholly repayable within five years		(24,619)	(11,892)
Profit before taxation	4	478,470	399,661
Taxation	5	(122,935)	(115,158)
Profit for the period		355,535	284,503
Other comprehensive (expense) income for the period			
– exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss		(1,800)	623
Total comprehensive income for the period		353,735	285,126
Earnings per share	7		
– Basic and diluted		31.7 cents	25.3 cents

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	1,539,716	1,445,186
Land use rights	8	375,274	379,355
Intangible assets		97,447	69,292
Deposits made on acquisition of property, plant and equipment		49,760	90,761
Deposit made on acquisition of a subsidiary	18	200,000	–
Advance payments for acquisition of technical knowhow		118,255	156,155
Deferred tax assets		167	250
		2,380,619	2,140,999
Current assets			
Inventories	9	74,557	74,746
Trade and other receivables	10	807,688	738,194
Bank balances and cash		1,772,521	1,656,434
		2,654,766	2,469,374
Current liabilities			
Trade and other payables	11	218,333	211,356
Taxation		60,498	46,408
Short-term bank loans	12	519,000	435,000
		797,831	692,764
Net current assets		1,856,935	1,776,610
Total assets less current liabilities		4,237,554	3,917,609

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Non-current liabilities			
Deferred tax liabilities		17,982	17,159
Convertible loan notes	13	156,906	160,467
		174,888	177,626
Net assets		4,062,666	3,739,983
Capital and reserves			
Share capital		9,858	9,858
Reserves		4,052,808	3,730,125
Total equity		4,062,666	3,739,983

The condensed consolidated financial statements on pages 6 to 31 were approved and authorised for issue by the Board of Directors on 28 August 2014 and are signed on its behalf by:

Wang Fucai
Chairman and
Chief Executive Officer

Au-yeung Kam Ling Celeste
Executive Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital redemption reserve RMB'000 (Note b)	Share option reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000 (Note c)	Statutory surplus reserve fund RMB'000 (Note d)	Retained profits RMB'000	Total RMB'000
At 1 January 2014	9,858	1,213,108	459,745	71	14,781	3,255	(19,180)	268,155	1,790,190	3,739,983
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	-	-	-	-	-	(1,800)	-	-	-	(1,800)
Profit for the period	-	-	-	-	-	-	-	-	355,535	355,535
Total comprehensive income for the period	-	-	-	-	-	(1,800)	-	-	355,535	353,735
Dividends	-	-	-	-	-	-	-	-	(31,052)	(31,052)
At 30 June 2014 (unaudited)	9,858	1,213,108	459,745	71	14,781	1,455	(19,180)	268,155	2,114,673	4,062,666
At 1 January 2013	9,858	1,213,108	459,745	71	14,764	2,116	(20,055)	219,124	1,396,965	3,295,696
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	-	-	-	-	-	623	-	-	-	623
Profit for the period	-	-	-	-	-	-	-	-	284,503	284,503
Total comprehensive income for the period	-	-	-	-	-	623	-	-	284,503	285,126
Recognition of equity-settled share based payments	-	-	-	-	16	-	887	-	-	903
Expiry of share option	-	-	-	-	(14,780)	-	-	-	14,780	-
Dividends	-	-	-	-	-	-	-	-	(28,625)	(28,625)
	-	-	-	-	(14,764)	-	887	-	(13,845)	(27,722)
At 30 June 2013 (unaudited)	9,858	1,213,108	459,745	71	-	2,739	(19,168)	219,124	1,667,623	3,553,100

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

Notes:

- (a) Special reserve represents the aggregate of:
 - (i) the difference between the considerations paid by Jet Bright International Holdings Limited, a wholly owned subsidiary of the Company, for the acquisition of the entire interest in 無錫瑞年實業有限公司 (Wuxi Ruinian Industry & Commerce Company Limited) ("Ruinian Industry") and the nominal value of the paid-in capital of Ruinian Industry in August 2006;
 - (ii) the difference between the nominal value of paid-in capital of 無錫瑞年營銷有限公司 (Wuxi Ruinian Sales Co., Ltd.) ("Ruinian Sales") and the distribution of Ruinian Sales' net assets upon its dissolution in October 2007; and
 - (iii) the difference between the nominal amount of the shares issued by the Company and the aggregate amount of share capital and share premium of the Group's former holding company, Tongrui Holdings Limited, acquired pursuant to a group reorganisation in preparation for the listing of the Company's share in 2010.
- (b) Capital redemption reserve arose from repurchase of shares. The amounts represent the nominal amount of the shares repurchased.
- (c) Non-distributable reserve represents the aggregate of:
 - (i) capital contributions from and distributions to the beneficial controlling shareholder of the Company, Mr. Wang Fucui, in respect of the interest on trade finance arrangement with related companies prior to 2009;
 - (ii) deemed distributions to the controlling shareholder in respect of the acquisition of a subsidiary in 2009;
 - (iii) deemed distributions to the shareholders in respect of the listing expenses borne by the Company in 2010; and
 - (iv) capital contributions from Strong Ally Limited ("Strong Ally"), a wholly-owned subsidiary of the former ultimate holding company, in relation to share options granted by Strong Ally to qualifying participants of the Group in 2010 of which the exercisable period is further extended to 31 December 2013 in the prior period with details set out in note 15.
- (d) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial information of the PRC subsidiaries while the amounts and allocation basis are based on the requirements of relevant laws and regulation in the PRC. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	365,455	113,016
Investing activities		
Interest received	25,546	17,625
Purchase of property, plant and equipment	(43,902)	(282,672)
Purchase of land use rights	–	(110,000)
Deposits paid on acquisition of property, plant and equipment	(49,760)	(44,530)
Deposits paid on acquisition of a subsidiary	(200,000)	–
Advance payments paid for acquisition of technical knowhow	–	(5,096)
Net cash used in investing activities	(268,116)	(424,673)
Financing activities		
Interest paid	(33,589)	(11,892)
Dividends paid	(31,052)	(28,625)
Bank loans raised	270,000	298,000
Repayment of bank loans	(186,000)	(78,000)
Net cash from financing activities	19,359	179,483
Net increase (decrease) in cash and cash equivalents	116,698	(132,174)
Cash and cash equivalents at 1 January	1,656,434	1,329,295
Effect on foreign exchange rate changes	(611)	518
Cash and cash equivalents at 30 June	1,772,521	1,197,639
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	1,772,521	1,197,639



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

1. GENERAL

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The Group’s condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting; and
HK(IFRIC)-Int 21	Levies

The application of the new Interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

3. SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports which are reviewed by the Chief Executive Officer in order to allocate resources to the reportable segments and to assess their performance.

The Group's reportable segments under HKFRS 8 are as follows:

Health and nutritional supplements	—	manufacture and sales of health and nutritional supplements
Health drinks	—	manufacture and sales of health drinks
Pharmaceutical products	—	manufacture and sales of pharmaceutical products

Each reportable segment derives its turnover from the sales of the products. They are managed separately because each product requires different production and marketing strategies.

Turnover represents the fair value of the consideration received or receivable for goods sold to outside customers during the period.

Segment results represent the gross profits earned by each segment.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

3. SEGMENT INFORMATION (CONTINUED)

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

	Turnover		Results	
	Six months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Health and nutritional supplements	785,250	755,315	620,784	588,083
Health drinks	206,723	188,615	101,125	62,846
Pharmaceutical products	61,412	56,673	28,433	35,807
	1,053,385	1,000,603	750,342	686,736
Advertising and promotional expenses			(157,944)	(170,925)
Other operating expenses			(127,935)	(123,431)
Miscellaneous income			3,778	1,548
Change in fair value of derivative components of convertible loan notes			9,302	–
Interest income			25,546	17,625
Interest expenses			(24,619)	(11,892)
Profit before taxation			478,470	399,661

Information of segment assets and segment liabilities are as follows:

Segment assets represent property, plant and equipment, land use rights, intangible assets, deposits made on acquisition of property, plant and equipment, deposit made on acquisition of a subsidiary, advance payments for acquisition of technical knowhow, inventories and trade and other receivables which are directly attributable to the relevant reportable segment. Segment liabilities represent trade and other payables which are directly attributable to the relevant reportable segment. These are the measures reported to the Chief Executive Officer for the purpose of resource allocation and assessment of segment performance. No operating segments identified by the Chief Executive Officer have been aggregated in arriving at the reportable segments of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

3. SEGMENT INFORMATION (CONTINUED)

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Assets		
Segment assets		
– health and nutritional supplements	1,987,982	1,859,011
– health drinks	522,331	548,942
– pharmaceutical products	752,384	545,736
	3,262,697	2,953,689
Deferred tax assets	167	250
Unallocated corporate assets (note a)	1,772,521	1,656,434
Consolidated total assets	5,035,385	4,610,373
Liabilities		
Segment liabilities		
– health and nutritional supplements	143,350	132,290
– health drinks	44,026	61,712
– pharmaceutical products	30,957	17,354
	218,333	211,356
Taxation	60,498	46,408
Deferred tax liabilities	17,982	17,159
Unallocated corporate liabilities (note b)	675,906	595,467
Consolidated total liabilities	972,719	870,390

Notes:

- (a) Unallocated corporate assets represent bank balances and cash.
- (b) Unallocated corporate liabilities represent short-term bank loans and convertible loan notes.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets included in		
— costs of goods sold	3,249	3,374
— administrative expenses	6,096	5,136
	9,345	8,510
Advertising and promotional expenses	157,944	170,925
Cost of inventories recognised as expenses	299,794	310,493
Depreciation of property, plant and equipment	47,642	54,235
Operating lease rentals in respect of land use rights	2,043	1,853
Change in fair value of derivative components of convertible loan notes	(9,302)	—

5. TAXATION

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax	(118,080)	(110,080)
PRC withholding tax	(2,648)	(2,296)
Deferred taxation	(2,207)	(2,782)
	(122,935)	(115,158)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

5. TAXATION (CONTINUED)

PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's operations in Hong Kong had no assessable profit for the period.

6. DIVIDENDS

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Dividends		
— 2013 final dividend of HK3.5 cents (2013: 2012 final dividend of HK3.2 cents) per share paid	31,052	28,625
— 2014 proposed interim dividend of HK3.0 cents (2013: 2013 interim dividend of HK2.5 cents) per share	26,796	22,321

The interim dividend of HK3.0 cents per share, which was recommended by the directors of the Company for the period is calculated on the basis of 1,123,036,000 shares in issue as at the date of these condensed consolidated financial statements.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit for the period attributable to owners of the Company of RMB355,535,000 (2013: RMB284,503,000) and on the weighted average number of shares in issue of 1,123,036,000 (2013: 1,123,036,000).

The computation of diluted earnings per share for the six months ended 30 June 2014 does not assume the conversion of the Company's convertible loan notes and the computation of diluted earnings per share for the six months ended 30 June 2013 did not assume the exercise of the Company's share options. This is because the exercise price of those options and convertible loan notes were higher than the average market price of the shares for respective periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

During the period, the Group incurred cost of RMB4,047,000 (2013: RMB6,048,000) on the acquisition of machinery and equipment, cost of RMB141,841,000 (2013: RMB295,070,000) on construction in progress and nil (2013: RMB110,000,000) on land use rights for the expansion of production facilities. The formal titles of the land use rights purchased in the current period have not been granted from the relevant government authorities as at the date of these condensed consolidated financial statements.

9. INVENTORIES

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Raw materials	14,398	20,925
Work in progress	13,764	13,834
Finished goods	33,330	30,519
Merchandise for resale	3,708	416
Packaging materials	9,357	9,052
	74,557	74,746

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Trade receivables	676,640	550,116
Bills receivables	991	1,542
	677,631	551,658
Deposits to suppliers	9,773	10,968
Property rental deposits	20,154	18,555
Prepayments for media airtime	37,087	104,562
Other receivables, prepayments and deposits	63,043	52,451
	807,688	738,194

Payment terms with customers are mainly on credit. Invoices are normally payable 90 days from date of issuance. The following is an aged analysis of trade and bills receivables based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Age		
0–90 days	505,808	409,094
91–180 days	154,225	126,201
181–365 days	16,362	15,413
Over 1 year	1,236	950
	677,631	551,658

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

11. TRADE AND OTHER PAYABLES

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Trade payables	77,186	124,216
Customers' deposits	28,424	20,746
Payroll and welfare payables	12,467	12,927
Other tax payables	45,013	26,213
Construction payables	5,471	2,947
Other payables	19,754	14,899
Advertising accruals	28,575	6,294
Other accruals	1,443	3,114
	218,333	211,356

The Group normally receives credit terms of 90 days from its suppliers. The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period.

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Age		
0–90 days	61,051	95,209
91–180 days	9,134	24,056
181–365 days	3,339	3,436
Over 1 year	3,662	1,515
	77,186	124,216

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

12. SHORT-TERM BANK LOANS

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Short-term bank loans		
— secured	99,000	100,000
— unsecured	420,000	335,000
	519,000	435,000
The Group's bank loans carry interest at		
— variable rate	459,000	315,000
— fixed rate	60,000	120,000
	519,000	435,000

All the variable rate bank loans carry interests at the prime rate offered by the People's Bank of China which were repriced on a monthly or quarterly basis. At 30 June 2014, the Group has variable rate bank loans carrying interest at 6.0% to 7.5% (31 December 2013: 6.0% to 6.9%) per annum and fixed rate bank loans carrying interest at 5.6% to 6.0% (31 December 2013: 6.0% to 6.6%) per annum.

As at 30 June 2014, the secured bank loans are secured by the Group's land use right with an aggregate carrying value of approximately RMB96,742,000 (31 December 2013: RMB97,803,000).

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB138,781,000 (31 December 2013: RMB185,000,000).

All the short-term bank loans are denominated in RMB.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

13. CONVERTIBLE LOAN NOTES

On 28 May 2013, an independent third party, Newport Consulting Ltd. (the "Subscriber") entered into a subscription agreement with the Company, pursuant to which the subscriber had conditionally agreed to subscribe for and the Company had conditionally agreed to issue a first tranche convertible loan notes in the principal amount of HK\$200,000,000 (equivalent to RMB157,246,000) on the first completion date, a second tranche convertible loan notes in the principal amount of HK\$400,000,000 (equivalent to RMB314,492,000) together with warrants that can be convertible into 20,000,000 ordinary share of the Company on the second completion date subject to the terms and conditions of the subscription agreement. The Subscriber is a company incorporated in Seychelles and is a wholly-owned subsidiary of CITIC Merchant Co., Limited. The net proceeds from issuing the convertible loan notes was planned to be used by the Group as its general working capital, as funds for future development of the existing business of the Group and as funds for the Group's future acquisition of business in the healthcare sector in the PRC.

The Company issued HK\$200,000,000 (equivalent to RMB157,246,000), 6% first tranche convertible loan notes to the Subscriber on 22 July 2013. The convertible loan notes are secured by 40% of the registered capital of Ruinian Industry, a wholly-owned subsidiary of the Company established in the PRC.

The convertible loan notes entitle the holders to convert them into ordinary shares of the Company at any time between the date of issuance of the convertible loan notes and their settlement date on 22 July 2015 at a conversion price of HK\$3 per share. If the convertible loan notes have not been converted, they will be redeemed on 22 July 2015 at the principal amount outstanding plus interest accrued. The Company shall have the right at any time after the first anniversary of the date of issuance of the first tranche convertible loan notes but prior to the maturity date of 22 July 2015 to redeem any principal amount of the first tranche convertible loan notes outstanding at face value thereof with the accrued interest.

The convertible loan notes contain three components: liability component, conversion option derivative and early redemption option derivative. The liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative and the early redemption option derivative are measured at fair value with changes in fair value recognised in profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

13. CONVERTIBLE LOAN NOTES (CONTINUED)

At 30 June 2014, the fair value of the liability component and the derivative components including the conversion option derivative and the early redemption option derivative amounted to HK\$192,543,000 (equivalent to RMB152,832,000) (31 December 2013: HK\$187,189,000, equivalent to RMB147,174,000) and HK\$5,133,000 (equivalent to RMB4,074,000) (31 December 2013: HK\$16,908,000, equivalent to RMB13,293,000). The change in fair value of the derivative components, amounted to HK\$11,775,000 (equivalent to RMB9,302,000), is recognised in the profit or loss during the period.

The second tranche convertible loan notes and warrants have not been issued up to the date of these condensed consolidated financial statements.

First tranche convertible loan notes

The movements of the first tranche convertible loan notes during the period are set out below:

	Principal amount RMB'000	Liability component RMB'000	Embedded derivatives RMB'000	Total RMB'000
At 31 December 2013 and 1 January 2014 (audited)	157,246	147,174	13,293	160,467
Interest charged (net of interest paid)	–	4,288	–	4,288
Change in fair value	–	–	(9,302)	(9,302)
Currency realignment	–	1,370	83	1,453
At 30 June 2014 (unaudited)	157,246	152,832	4,074	156,906

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

13. CONVERTIBLE LOAN NOTES (CONTINUED)

First tranche convertible loan notes (continued)

The following assumptions were used to calculate the fair values of the embedded derivatives:

Valuation date	At 30 June 2014	At 31 December 2013	At 22 July 2013 (the issuance date)
Spot price	HK\$1.75	HK\$2.00	HK\$2.16
Conversion price	HK\$3.00	HK\$3.00	HK\$3.00
Dividend yield	2.88%	2.00%	2.00%
Time to maturity	1.06 years	1.56 years	2 years
Risk-free rate	0.13%	0.24%	0.31%
Volatility	50%	60%	70%

The Binomial model has been used to estimate the fair value of the embedded derivatives. The variables and assumptions used in computing the fair value of the embedded derivatives are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the embedded derivatives.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

14. FAIR VALUE MEASUREMENTS OF DERIVATIVES

Some of the Group's financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2014	31 December 2013		
Conversion option derivative and early redemption option embedded in the convertible loan notes classified as derivative financial liabilities	Liabilities – RMB4,074,000	Liabilities – RMB13,293,000	Level 3	The fair values of the embedded conversion option and the issuer's early redemption option were determined using binomial option pricing model, based on spot price, conversion price, dividend yield, time to maturity, risk-free rate, volatility and discount rate that reflects the credit risk of counterparties.

There were no transfers between Level 1, 2 and 3 in the period.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair value at the end of the reporting period.

Note: The categorisation of fair value measurements into the different levels of the fair value hierarchy depends on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

15. SHARE OPTIONS

(a) Pre-IPO Share Option Schemes

According to an ordinary resolution passed on 29 January 2010, the Company adopted two share option schemes (the “Pre-IPO Share Option Schemes”), which expired on 18 February 2013. Options to subscribe for an aggregate of 20,000,000 shares of the Company, and options to purchase for an aggregate of 20,000,000 shares of the Company had been granted by Strong Ally. A nominal consideration of HK\$1 is payable on acceptance of the grant of options. The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Schemes may not exceed 4% of the issued number of shares in the capital of the Company at the listing date.

On 3 February 2010, a total of 40,000,000 share options were granted to 104 qualified participants, including the directors of the Company, at an exercise price of HK\$3 per share under the terms of the Pre-IPO Share Option Schemes. Total consideration received from the participants for taking up the options granted by the Company was insignificant.

On 18 February 2013, the exercisable period of the abovementioned share option schemes was expired. On 5 March 2013, Strong Ally extended the expiry date of the options to purchase shares of the Company to 31 December 2013.

The closing price of the Company’s shares immediately before 5 March 2013, the date of the extension, was HK\$2.04.

The fair value adjustment of the options determined at the date of extension using the Binomial model and recognised immediately in profit or loss was HK\$1,092,000 (equivalent to RMB870,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

15. SHARE OPTIONS (CONTINUED)

(a) Pre-IPO Share Option Schemes (continued)

The following assumptions were used to calculate the fair values of share options:

5 March 2013

Grant date share price	HK\$2.04
Exercise price	HK\$3.00
Expected life	0.8 years
Expected volatility	57%
Dividend yield	2.2%
Risk-free interest rate	0.136%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

Upon the expiration of the Pre-IPO Share Option Scheme at the extended date of 31 December 2013, no options had been remained outstanding thereafter. For the six month ended 30 June 2013, the Group recognised expenses of RMB903,000 (2014: nil) in relation to the Pre-IPO Share Option Schemes.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

15. SHARE OPTIONS (CONTINUED)

(b) Share Option Scheme

Pursuant to the written resolutions passed by the then sole shareholder on 1 February 2010, the Company adopted the share option scheme (the "2010 Share Option Scheme") to provide incentive for qualified participants as defined in the Share Option Scheme to subscribe the shares in the Company. A nominal consideration of HK\$1 is payable on acceptance of the grant of options. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued number of shares in the capital of the Company at the listing date. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

During the six months ended 30 June 2014, no options have been granted or agreed to be granted under the Share Option Scheme.

16. CAPITAL COMMITMENTS

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of		
— property, plant and equipment	93,055	166,255
— technical knowhow	52,554	56,154
	145,609	222,409

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

17. RELATED PARTY TRANSACTION

Compensation of key management personnel

During the period, the remuneration of directors and other members of key management was as follows:

	Six months ended 30 June	
	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Salaries and other benefits	4,867	4,939
Equity-settled share based payments	–	346
Retirement benefits scheme contributions	76	69
	4,943	5,354

18. EVENTS AFTER THE END OF THE REPORTING PERIOD

The following events took place subsequent to 30 June 2014:

(a) Grant of Share Options

On 4 July 2014, the Company has granted share options to 72 qualified participants to subscribe for a total of 99,600,000 ordinary shares of HK\$0.01 each in the capital of the Company under the 2010 Share Option Scheme.

The subscription price is HK\$2 per share. These options are exercisable starting from the date of acceptance of the offer by each Grantee to 3 July 2016 (both days inclusive). HK\$1 would be the consideration of the grant to be paid by each grantee upon the acceptance of the grant. No exercise of share options is noted up to the date of issuance of these condensed consolidated financial statements. The directors are in the progress of assessing the financial impact of the share options granted under the 2010 Share Option Scheme.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

18. EVENTS AFTER THE END OF THE REPORTING PERIOD (CONTINUED)

(b) Acquisition of 60% equity interest in Magic Galaxy Worldwide Limited (“Magic Galaxy”)

On 27 June 2014, Sure Unity Limited (the “Purchaser”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the “Agreement”) and agreed to acquire 60% equity interest in Magic Galaxy at an aggregate consideration of RMB200 million (equivalent to approximately HK\$252 million). It was also agreed that a purchaser loan (the “Purchaser Loan”) in the sum of RMB100 million (equivalent to approximately HK\$126 million) will be provided by the Purchaser to Magic Galaxy to repay the vendor shareholder loan in full upon the entering into of the Agreement and the Purchaser Loan will be turned into and deemed to be interest-free shareholder loan provided by the Purchaser to Magic Galaxy since the completion of the acquisition on 15 July 2014. The directors are in the progress of assessing the financial impact of the acquisition of Magic Galaxy.

Magic Galaxy is an investment company with the core businesses of its subsidiary in sales and manufacturing of high end eye drops products in the PRC. Its principal asset is the equity interest in Anhui Province Shuangke Pharmaceutical Company Limited 安徽省雙科藥業有限公司 (“Anhui Shuangke”). The acquisition is in line with the Group’s business strategy to further expand its high end eye medicine product portfolio and better utilise its existing pharmaceutical sales network. Anhui Shuangke has a diverse portfolio of high end eye drop products which can complement the Company’s existing eye medicine product range.

Management Discussion and Analysis

BUSINESS REVIEW

The Group continued to deliver steady growth in the first half of 2014 as turnover increased by 5.3% year on year to RMB1,053.4 million and net profit rose by 25.0% year on year to RMB355.5 million. The overall gross profit margin improved to 71.2% in the first half of 2014 from 68.6% in the first half of 2013, mainly due to the change in sales mix and decrease in outsourced production of health drinks products. The increase in net profit was mainly attributable to the steady growth in turnover, increase in gross profit margin and a decrease in selling and marketing expenses as a percentage of sales.

During the period, all businesses maintained sustainable sales growth which met the Group's expectation. Sales of health and nutritional supplement products, the Group's core business, increased by year on year 4.0% to RMB785.3 million as a result of growth in sales of the flagship product of amino acids tablets and a considerable increase in sales of other health supplement products. Meanwhile, sales of health drinks increased by year on year 9.6% to RMB206.7 million and sales of pharmaceutical products grew by 8.4% year on year to RMB61.4 million.

The Group continued to expand its retail network at a steady pace. Its health and nutritional supplement products were sold through third party's retail network of approximately 75,000 retail outlets in China as at 30 June 2014 (there were approximately 71,000 retail outlets as at the end of 2013). During the period, newly developed retail outlets including Shanghai Shiji Hualian Supermarket Chain in Fuyang, Yunnan Baiyao Drug Stores Chain, Jingyitang Drug Stores Chain, Taiji Drug Stores Chain in Mianyang and Rich Pharmacy Stores Chain. The Group's health drinks were sold through numerous retail outlets in the provinces like Jiangsu, Zhejiang, Henan, Hebei, Hubei and Guangdong, while the pharmaceutical products were sold to over 400 hospitals.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

To further strengthen the Group's leading position in the health supplement industry, the Group continued to adopt long-term and systematic marketing strategies. It conducted comprehensive promotional campaigns through traditional multimedia, mobile internet, transportation system advertising, and innovative outdoor advertising. The Group's Real Nutri Amino Acids Tablet has been rated as Jiangsu Famous Brand by Jiangsu Promotion Commission for Famous Brand Strategy for ten consecutive years. The Group held over 100 promotional events during the period and participated in a number of large exhibitions and conferences, including The First China Amino Acids Festival, which was jointly hosted in Wuxi by the Group, the Wuxi Federation of Industry and Commerce, the Wuxi Binhu Municipal Government and Jiangsu Provincial Tourism Bureau, The 2014 China Conference Marketing Festival and Summer Health Supplements Grand Exhibition, and The 2014 Nanjing 11th Senior Healthcare Industry (Conference Marketing) Forum & Exhibition in Nanjing, The 2014 Taihu Tourism Carnival & Tourism and Leisure Industry Expo of Yangtze Delta, and The 2014 National Technology Week & The Wuxi 26th Science Popularity Week in Wuxi. The Group promoted Real Nutri's brand and products by exploiting the booming internet social networking platforms including its own corporate, popular portals, online shopping websites, its own blog and WeChat to enhance its brand penetration in the internet media. As at the end of June 2014, the number of Real Nutri official blog fans was over 500,000. In addition, the Group produced a total of twenty episodes of five minute micro movies "The Real Nutri Healthy Class" which were broadcasted in popular video streaming platforms like iQiyi, Youku and PPS to explain the benefits of amino acids to health, disseminate knowledge about regimen, and promote Real Nutri brand through light comedies.

During the period, the Group achieved good progress in sales at its Real Nutri Health Stores and in direct sales of health supplement products on the internet. These two sales channels contributed revenues of RMB107.9 million and RMB28.8 million respectively. The Group set up 25 new Real Nutri Health Stores in the cities of Shanghai, Xuzhou, Shangyu, Zhangjiaguang and Huaian, bringing the total number of Real Nutri Health Stores to over 190 at the end of June 2014. Real Nutri Health Stores provide their club members with a series of personalized health services and organize activities for them with an aim of increasing the local market penetration of the amino acids and of disseminating healthcare messages. The stores will thus be able to establish a loyal consumer base for its new sales business models in the future. The registered members of our Real Nutri Health Club were over 280,000 by the end of the first half 2014. The Group held over 400 club member activities including a series of "Good China Nutrition, Real Nutri Health Walk" events, Thousand People Taihu Tour, health regimen talks, health trips and visits to the Group's corporate headquarters.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

During the year, the Group's health drink business held about 150 promotional activities including the distribution of complimentary health drinks at shopping malls and supermarkets, products roadshows and thematic promotional activities. It also sponsored a number of large scale events including Star With K-pop Live Concert in Guangzhou by several popular for its South Korean music bands and The 2014 CCTV Branding Marketing Seminar.

The Group's medicine business held over 80 promotions featuring academic findings and attended a number of major medical conferences, including The 4th Chinese Conference on Lung Cancer Personalized Therapy in Beijing, The 71th Pharmchina in Suzhou, Yaoyou Zhijia – The 1st Drug Technology Transfer Summit in Qingdao and The 20th Annual Meeting of Chinese Society of Dermatology in Hangzhou.

Product quality and safety are the key factors in the success of a health supplement enterprise. Therefore, the Group adopts the most stringent quality control measures and conducts rigorous tests on the selected premium raw materials before they are used in production. It also examines the semi-finished products and final products in accordance with Good Manufacturing Practice ("GMP"). Samples of the Group's products are also sent to the laboratories designated by China Food and Drug Administration ("CFDA") for regular tests to ensure that the product quality meet the highest national safety standards. In addition, the Group actively collaborates with domestic professional research teams and constructed a joint laboratory with the Peking University Health Science Center. The Group also established a training center for postgraduate research students of the Peking University in the Group's pharmaceutical production base in Nanjing. During the period, the Group launched a number of new health supplement products including Collagen Amino Acids Vitamins Tablets, Resveratol Omega-3 Complex Softgel and Lycopene Extract Softgel. The Group made capital investment of over RMB60 million in the first half of 2014 to upgrade the equipments and facilities at different production bases, including its health supplement production base and health drink production base in Wuxi, its pharmaceutical production base in Nanjing, a new generation polypeptide production base in Suqian as well as a raw materials plantation base in Suzhou so as to reinforce the Group's product research and development capabilities, and to maintain its competitive advantage in production capacities and operation scale in the next three to five years.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

The Group expanded its business through mergers and acquisitions according to its future business development strategies and the market demand. During the period, the Group entered into the sales and purchase agreement to acquire a 60% equity interest in Anhui Province Shuangke Pharmaceutical Company Limited (“Anhui Shuangke”). The transaction was completed in July 2014. Anhui Shuangke possesses one of the few production facilities for high end eye drops in China with the latest version of GMP certification granted by the CFDA. Anhui Shuangke produces and sells over 10 types of high end medicines (out of which seven are new medicines approved by the national-level authorities) for various types of eye diseases and post-eye surgery treatments. Anhui Shuangke has well established teams for sales and research development, which will bring valuable research and marketing talents to the Group. Currently Anhui Shuangke eye medicines are sold to over 200 ophthalmological hospitals through over 100 pharmaceutical distributors. It also won a number of tenders for supplying eye medicine to hospitals in China in past years. The cooperation is expected to expand the sales network for the eye medicines of both the Group and Anhui Shuangke, facilitating their sales to over 300 secondary and tertiary hospitals in China, and these maximizing the utilization of the sales and promotion resources of the two companies. Positioned as a high-end eye drug provider, the Group aspires to become one of the leading players in the eye medicine market by combining the strengths and expertise of Anhui Shuangke.

Corporate Social Responsibility

During the period, the Group established a charity fund to provide medical, educational and support services for the underprivileged elderly, children with parents away from home and critically ill patients respectively. The Group donated scholarship to students of both undergraduate and postgraduate clinical and pharmaceutical programs at the Shenzhen University Health Science Center, and also participated in the Children Reading e-Station activity in Wuxi as well as the Care for Disabled Children event in Shaoxing.

FINANCIAL REVIEW

For the six months ended 30 June 2014, the turnover of the Group was RMB1,053.4 million, representing an increase of approximately 5.3% over the same period last year. Profit attributable to owners of the Company for the period has increased to RMB355.5 million by approximately 25.0% over the same period last year. The Company’s basic earnings per share reached RMB31.7 cents per share by approximately 25.3% over the same period last year.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Liquidity and capital resources

As at 30 June 2014, the Group has current assets of RMB2,654.8 million (31 December 2013: RMB2,469.4 million) and current liabilities of RMB797.8 million (31 December 2013: RMB692.8 million). The current ratio was 3.3 as at 30 June 2014 (31 December 2013: 3.6).

As at 30 June 2014, the Group has bank loans in the amount of RMB519.0 million (31 December 2013: RMB435.0 million) and a gearing ratio of 10.3% (31 December 2013: 9.4%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets. As at 30 June 2014, the Group has pledged the Group's land use rights in amount of RMB96.7 million for the bank borrowing (31 December 2013: RMB97.8 million).

Capital commitments and contingent liabilities

As at 30 June 2014, the Group's capital commitments were approximately RMB145.6 million (31 December 2013: RMB222.4 million), all of which were related to property, plant and equipment and technical knowhow. The Group has no material contingent liabilities as at 30 June 2014 (31 December 2013: nil).

Foreign Exchange and Treasury Policies

As the Group's substantial business activities, assets and liabilities are denominated in Renminbi, the risk derived from the foreign exchange to the Group is not high. The treasury policy of the Group is to manage any risk of foreign exchange or interest rate (if any) only if it will potentially impose a significant impact on the Group. The Group continues to observe the foreign exchange and interest rate market, and may hedge against foreign currency risk with foreign exchange forward contracts and interest rate risk with interest rate swap contracts if necessary.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Use of net proceeds from the Company's initial public offering and placing

The total net proceeds from the Company's initial public offering after the issue of the overallotment shares amounted to approximately HK\$806.6 million (RMB692.6 million) and the total net proceeds from placing in October 2010 amounted to approximately HK\$597.2 million (RMB517.1 million). As at 30 June 2014, net proceeds of accumulated approximately RMB1,015.3 million has been applied on market expansion, capital expenditures, product development and other working capital, and the remaining of the net proceeds RMB194.4 million has been deposited into banks and qualified financial institution, which are intended to be applied in accordance with the proposed application as set out in the "Use of proceeds" section in the Prospectus and in the announcement dated 28 October 2010.

PROSPECTS

In October of 2013, the State Council issued the opinion titled "Several Opinions on Promoting the Development of the Healthcare Service Industry" which outlined the blueprint for healthcare service industry's future development and stated the policies of fostering the development of the country's healthcare industries. In addition, the State Council also issued The China Food and Nutrition Development Outline (2014-2020) (the "Outline") in February 2014 to set targets on the intake of nutrients and those on the control of diseases related to nutrition. The government Outline requires that the nationals have adequate daily protein intake which will not be less than 78 grams per capita by year 2020. In addition, no less than 45% of the protein intake shall be high-quality proteins. Other development goals include the reinforcement of health supplements products for infants, children, young people, the pregnant women, mothers with newborn babies and the elderly. The Outline encourages the dissemination of knowledge about nutrition and healthcare and provides the nationals the guidance on food and nutrition. The development of mega healthcare industry will benefit greatly from the government's active measures to promote public healthcare education. The Group anticipates that the implementations of such policies will lead to consistent growth in the consumers' demand for high quality nutritional health supplements. China's mega healthcare industry will have a bright prospect and will migrate to a new wave of fast business growth.



Management Discussion and Analysis

PROSPECTS (CONTINUED)

To further consolidate the brand's competitive edge, the Group will strengthen brand management and foster closer partnerships with distributors to enhance brand-building, marketing, sales and distribution. In addition to the development of the Real Nutri Health Stores and internet direct sales business, the Group will also actively explore new markets and new business models for sales with strong potential. The Group plans to open at least 20 Real Nutri Health Stores in the second half of 2014 in major cities like Huzhou, Yangzhou, Huangshi, Wuhan and Wuhu. With the Real Nutri Health Club program, the Group will be able to better understand the healthcare needs and consumption pattern of its club members and to offer them a new regimen healthcare experience and premium products and services. Capitalization on the e-commerce boom in China, the Group will reinforce its brand-building efforts in new internet media and refine its online shopping system and services. By analyzing the membership database, the Group will be able to gain a better insight into the healthcare needs and trends of the online consumers, and will thus be able to launch a more effective sales and marketing campaign and a more diverse product mix. Consequently, the Group will be able to ride on the growing popularity of the internet-based commerce to expand its health supplements direct sales business.

The Group will enhance its product development and improve existing products to expand its product portfolio. It will also engineer a new generation of amino acid products with specific efficacy to cater for the diverse healthcare needs of the consumers. The Group will satisfy the vast consumer groups' complex needs for nutrition and healthcare with its professional production, research and development, sales and services. In the second half of 2014, the Group plans to launch several new health supplement products including Real Nutri Natto Kinase Tablets, Amino Acids Spirulina Capsules and Zinc Gluconate Oral Liquid. Its health drink business will launch the new U-Energy amino acid drinks of aluminum packing in September of 2014, targeting the consumer group which prefers functional energy drinks. In the meantime, the Group will fully capitalize the cooperation with Anhui Shuangke and consolidate the sales channels and sales teams of pharmaceutical business in order to optimize the production and sales force for its eye medicines. The Group will also devote additional resources to developing and introducing more new medicines to enrich its pharmaceutical products portfolio.

Management Discussion and Analysis

PROSPECTS (CONTINUED)

The Group will actively track merger and acquisition opportunities, especially in the areas of sales channels, so as to enlarge the scale of its sales operation and to assume a pivotal role in sales and marketing. It will also continue to explore potential acquisition targets in the fields of innovative health and nutritional supplements and new drug technologies. The Group is optimistic about the prospects of China's mega healthcare industry. Furthermore, it will continue the steady expansion of its business in volatile economy and operating environment in order to attempt major business breakthroughs and strive to maximize the shareholders' returns.

HUMAN RESOURCES

As at 30 June 2014, the Group had a work force of 876 people. The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees in Hong Kong and the PRC. The Group reviews its human resources and remuneration policies periodically to ensure they are in line with market practice and regulatory requirement.



Other Information

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK3.0 cents per share for the six months ended 30 June 2014 (2013: HK2.5 cents) to the shareholders whose names appear on the register of members of the Company on Tuesday, 30 September 2014. The interim dividend will be payable on Friday, 24 October 2014.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from Friday, 26 September 2014 to Tuesday, 30 September 2014, both days inclusive. During such period, no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all completed transfer forms accomplished by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 25 September 2014.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company in the share capital, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules"), are set out below:

Name of Director	Capacity	Number and class of securities	Approximate shareholding percentage (%)
Mr. Wang Fucai ⁽²⁾	interest in a controlled corporation	263,468,394 Shares (L)	23.46%
	short position	6,533,660 Shares (S)	0.58%
Dr. Wong Lung Tak Patrick, BBS, J.P.	beneficial owner	100,000 Shares (L)	0.01%

Notes:

- (1) The letter "L" denotes the Director's long position in such securities and the letter "S" denotes the Director's short position in such securities.
- (2) Furui Investments Limited ("Furui") owns the entire issued share capital of Strong Ally Limited and will be deemed to be interested in the 6,533,660 Shares held by Strong Ally Limited and the short position over 6,533,660 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme, and Mr. Wang Fucai owns the entire issued share capital of Furui and will be deemed to be interested in the 263,468,394 Shares held by Furui and Strong Ally Limited and the short position over 6,533,660 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.



Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY (CONTINUED)

Save as disclosed herein, as at 30 June 2014, none of the Directors and chief executives of the Company, or any of their sponsor, or children under eighteen years of age, has any interests or short positions in the shares underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

Each of the Company and Strong Ally Limited has conditionally adopted a Pre-IPO Share Option Scheme on 29 January 2010 and the Company has conditionally adopted a Share Option Scheme on 1 February 2010.

As at 30 June 2014, no options have been granted or agreed to be granted under the Share Option Scheme.

As at 3 February 2010, options to subscribe for an aggregate of 20,000,000 Shares had been granted by the Company, and options to purchase for an aggregate of 20,000,000 Shares had been granted by Strong Ally Limited, to a total of 104 Qualified Participants under the Pre-IPO Share Option Schemes. On 18 February 2013, both the above Pre-IPO share option schemes expired. On 5 March 2013, Strong Ally Limited extended the expiry date of the options to purchase for shares of the Company to 31 December 2013. Upon the expiration of the Pre-IPO Share Option Scheme at the extended date of 31 December 2013, no options had been remained outstanding thereafter.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed under the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company", and "Share Options", at no time during the period was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18, was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

Other Information

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2014, as recorded in the register required to be kept by the Company under section 336 of the SFO, the following person, other than any Director or the chief executive of the Company, was the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company:

Shareholders	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Furui ⁽¹⁾	beneficial owner and interest in a controlled corporation	263,468,394	23.46%
	short position	6,533,660	0.58%
Qin Shifeng ⁽²⁾	interest of spouse	263,468,394	23.46%
	short position	6,533,660	0.58%
Newport Consulting Ltd. ⁽³⁾	interest in a controlled corporation	220,000,000	19.59%
CITIC Merchant Co., Limited ⁽³⁾	interest in a controlled corporation	220,000,000	19.59%
Asian Capital Partners Group Company Limited ⁽⁴⁾	interest in a controlled corporation	220,000,000	19.59%
CITIC International Assets Management Limited ⁽⁴⁾	interest in a controlled corporation	220,000,000	19.59%
CITIC International Financial Holdings Limited ⁽⁵⁾	interest in a controlled corporation	220,000,000	19.59%
China CITIC Bank Corporation Limited ⁽⁶⁾	interest in a controlled corporation	220,000,000	19.59%
CITIC Limited ⁽⁷⁾	interest in a controlled corporation	220,000,000	19.59%
CITIC Group Corporation ⁽⁸⁾	interest in a controlled corporation	220,000,000	19.59%
Radiant Assets Management Limited ⁽⁹⁾	interest in a controlled corporation	112,305,000	10.00%
Radiant Assets Limited ⁽⁹⁾	interest in a controlled corporation	112,305,000	10.00%
Concorde Asia Group Limited ⁽⁹⁾	interest in a controlled corporation	332,305,000	29.59%
Huang Bin ⁽¹⁰⁾	interest in a controlled corporation	332,305,000	29.59%
Pyrope Assets Limited ("PAL") ⁽¹¹⁾	interest in a controlled corporation	56,387,161	5.02%
CK Life Sciences Int'l., (Holdings) Inc ⁽¹¹⁾ ("CK Life")	interest in a controlled corporation	56,387,161	5.02%
Gold Rainbow Int'l Limited ("GRIL") ⁽¹²⁾	interest in a controlled corporation	56,387,161	5.02%
Gotak Limited ("GL") ⁽¹²⁾	interest in a controlled corporation	56,387,161	5.02%
Cheung Kong (Holdings) Limited ("CKHL") ⁽¹²⁾	interest in a controlled corporation	56,387,161	5.02%
Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1") ⁽¹³⁾	interest in a controlled corporation	56,387,161	5.02%
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") ⁽¹⁴⁾	interest in a controlled corporation	56,387,161	5.02%
Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2") ⁽¹⁴⁾	interest in a controlled corporation	56,387,161	5.02%
Li Ka-Shing ("Mr. Li") ⁽¹⁵⁾	interest in a controlled corporation	56,387,161	5.02%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

- (1) Furui owns the entire issued share capital of Strong Ally Limited and will be deemed to be interested in the 6,533,660 Shares held by Strong Ally Limited and the short position over 6,533,660 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.
- (2) Qin Shifeng is the spouse of Mr. Wang Fucai and will be deemed to be interested in the 263,468,394 Shares which Mr. Wang Fucai is interested in through Furui and Strong Ally Limited and the short position over 6,533,660 Shares as a result of grant of options by Strong Ally Limited under the Pre-IPO Share Option Scheme.
- (3) CITIC Merchant Co., Limited directly owns the entire issued share capital of Newport Consulting Ltd. and will be deemed to be interested in the 220,000,000 Shares held by Newport Consulting Ltd.
- (4) CITIC International Assets Management Limited and Asian Capital Partners Group Company Limited hold one third or more of the issued share capital of CITIC Merchant Co., Limited separately and will be deemed to be interested in the 220,000,000 Shares held by CITIC Merchant Co., Limited. By virtue of the above, CITIC International Assets Management Limited and Asian Capital Partners Group Company Limited are therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which Newport Consulting Ltd. or CITIC Merchant Co., Limited is taken as interested as a substantial shareholder of the Company under the SFO.
- (5) CITIC International Financial Holdings Limited holds one third or more of the issued share capital of CITIC International Assets Management Limited and will be deemed to be interested in the 220,000,000 Shares held by CITIC International Assets Management Limited. By virtue of the above, CITIC International Financial Holdings Limited is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which Newport Consulting Ltd., CITIC Merchant Co., Limited or CITIC International Assets Management Limited is taken as interested as a substantial shareholder of the Company under the SFO.
- (6) China CITIC Bank Corporation Limited holds one third or more of the issued share capital of CITIC International Financial Holdings Limited and will be deemed to be interested in the 220,000,000 Shares held by CITIC International Financial Holdings Limited. By virtue of the above, China CITIC Bank Corporation Limited is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which Newport Consulting Ltd., CITIC Merchant Co., Limited, CITIC International Assets Management Limited or CITIC International Financial Holdings Limited is taken as interested as a substantial shareholder of the Company under the SFO.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes: (Continued)

- (7) CITIC Limited holds one third or more of the issued share capital of China CITIC Bank Corporation Limited and will be deemed to be interested in the 220,000,000 Shares held by China CITIC Bank Corporation Limited. By virtue of the above, CITIC Limited is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which Newport Consulting Ltd., CITIC Merchant Co., Limited, CITIC International Assets Management Limited, CITIC International Financial Holdings Limited or China CITIC Bank Corporation Limited is taken as interested as a substantial shareholder of the Company under the SFO.
- (8) CITIC Limited is wholly-owned by CITIC Group Corporation, CITIC Group Corporation is deemed to be interested in the same number of Shares in which CITIC Limited is interested under the SFO.
- (9) Concord Asia Group Limited directly owns the entire issued share capital of Asian Capital Partners Group Company Limited and will be deemed to be interested in the 220,000,000 Shares held by Asian Capital Partners Group Company Limited. Radiant Assets Management Limited holds 112,305,000 Shares of the Company and is wholly-owned by Radiant Assets Limited. Radiant Assets Limited is deemed to be interested in the same number of Shares in which Radiant Assets Management Limited is interested under the SFO. Since Radiant Assets Limited is wholly-owned by Concord Asia Group Limited, Concord Asia Group Limited is deemed to be interested in the same number of Shares in which Radiant Assets Limited is interested under the SFO.
- (10) Concord Asia Group Limited is wholly-owned by Mr. Huang Bin, Mr. Huang Bin is deemed to be interested in the same number of Shares in which Concord Asia Group Limited is interested under the SFO.
- (11) CK Life directly owns the entire issued share capital of PAL and will be deemed to be interested in the 56,387,161 Shares held by PAL.
- (12) GRIL holds one third or more of the issued share capital of CK Life and will be deemed to be interested in the 56,387,161 Shares held by CK Life. By virtue of the above, GRIL is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which PAL or CK Life is taken as interested as a substantial shareholder of the Company under the SFO. Since GRIL is wholly-owned by GL, GL is deemed to be interested in the same number of Shares in which GRIL is interested under the SFO. Since GL is wholly-owned by CKHL, CKHL is deemed to be interested in the same number of Shares in which GL is interested under the SFO.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes: (Continued)

- (13) TUT1, as trustee of UT1, together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of one third or more of the voting power at their general meetings (“related companies”), hold more than one third of the issued share capital of CKHL. By virtue of the above and the interest of TUT1 as trustee of UT1 and its related companies in the shares in CKHL, TUT1 as trustee of UT1 is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which PAL, CK Life, GRIL, GL or CKHL will be taken as interested as a substantial shareholder of the Company under the SFO.
- (14) Each of TDT1 as trustee of DT1 and TDT2 as trustee of DT2 holds units in UT1. By virtue of the above and its interest of holding units in UT1, each of TDT1 as trustee of DT1 and TDT2 as trustee of DT2 is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which PAL, CK Life, GRIL, GL or CKHL will be taken as interested as a substantial shareholder of the Company under the SFO.
- (15) Mr Li is the settlor of each of DT1 and DT2 and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO. Mr Li is also interested in one third of the entire issued share capital of a company owning the entire issued share capital of TUT1, TDT1 and TDT2. By virtue of the above and as a director of CKHL, Mr Li is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by or in which PAL, CK Life, GRIL, GL or CKHL will be taken as interested as a substantial shareholder of the Company under the SFO.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus, none of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

Mr. Wang Fucai who is the Director of the Company, has provided an annual confirmation in respect of the compliance with the non-competition undertaking given by him (as described in the Prospectus) (the “Non-competition Undertaking”) and information regarding his investment and engagement in the pharmaceutical business (as disclosed in the Prospectus) and the nature of such investment and engagement.



Other Information

DIRECTORS' INTERESTS IN COMPETING BUSINESS (CONTINUED)

The independent non-executive Directors have also reviewed the compliance by Mr. Wang Fucui with the Non-competition Undertaking and the information that they have provided regarding investment and engagement by him in the pharmaceutical business (as disclosed in the Prospectus), and the nature of such investment and engagement. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach of Mr. Wang Fucui of the Non-competition Undertaking given by him.

AUDIT COMMITTEE

The audit committee currently comprises three independent non-executive Directors, namely Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Xu Hua Feng.

The audit committee is primarily responsible for the review and supervision of the financial reporting process and internal control system. It has reviewed the accounting principles and practices adopted by the Company and the unaudited financial results of the Group for the six months ended 30 June 2014. The Company's external auditor, Deloitte Touche Tohmatsu, has conducted a review of the interim financial information of the Group for the six months ended 30 June 2014 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the six months ended 30 June 2014.



Other Information

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions of the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Listing Rules. For the six months ended 30 June 2014, the Company has complied with all the applicable code provisions as set out in the Code, except for deviation of the provision A.2.1 of the Code as mention below.

Provision A.2.1 of the Code provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Wang Fucai has been performing both the roles of Chairman and Chief Executive Officer. Mr. Wang is the founder of the Group and has over 30 years of experience in the health care and pharmaceutical industry. Given the current stage of development of the Group, the Company believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group’s business strategies. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors’ knowledge, information and belief, the Company has maintained sufficient public float for the six months ended 30 June 2014.

On behalf of the Board

Wang Fucai

Chairman

Hong Kong, 28 August 2014