



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

2015 INTERIM REPORT



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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

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Grand Cayman KY1-1110
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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The Hennessy
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Wan Chai, Hong Kong

Financial Highlights

For the six months ended
June 30,

	2015 RMB'000	2014 RMB'000	Change %
Turnover	1,090,294	1,053,385	3.5%
Gross profit	731,402	750,342	(2.5%)
Profit attributable to owners of the Company	246,565	355,535	(30.6%)
Basic earnings per share (RMB cents)	19.6	31.7	(38.2%)
Declared interim dividend (HK cents)	3.0	3.0	0.0%

Report on Review of Condensed Consolidated Financial Statements



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 June 30, 2015 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

August 28, 2015

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2015

	Notes	Six months ended June 30,	
		2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Turnover		1,090,294	1,053,385
Cost of goods sold		(358,892)	(303,043)
Gross profit		731,402	750,342
Other income		39,404	29,324
Other gains and losses		1,499	9,302
Selling and distribution costs		(280,250)	(238,602)
Administrative expenses		(85,579)	(47,277)
Finance costs		(37,114)	(24,619)
Profit before taxation	4	369,362	478,470
Taxation	5	(118,208)	(122,935)
Profit for the period		251,154	355,535
Other comprehensive income (expense) for the period			
— exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss		101	(1,800)
Total comprehensive income for the period		251,255	353,735
Profit for the period attributable to:			
— Owners of the Company		246,565	355,535
— Non-controlling interests		4,589	—
		251,154	355,535
Total comprehensive income for the period attributable to:			
— Owners of the Company		246,666	353,735
— Non-controlling interests		4,589	—
		251,255	353,735
Earnings per share	7		
— Basic		19.6 cents	31.7 cents
— Diluted		19.4 cents	31.7 cents

Condensed Consolidated Statement of Financial Position

At June 30, 2015

	Notes	At June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	2,011,079	1,947,025
Land use rights		367,960	385,457
Goodwill		113,650	113,650
Intangible assets		360,249	373,442
Deposits made on acquisition of property, plant and equipment		137,611	73,191
Advance payments for acquisition of technical knowhow		112,465	112,205
Deferred tax assets		–	83
		3,103,014	3,005,053
Current assets			
Inventories	9	108,311	73,702
Trade and other receivables	10	948,468	919,100
Bank balances and cash		2,475,931	1,904,033
		3,532,710	2,896,835
Current liabilities			
Trade and other payables	11	284,614	237,556
Taxation		52,085	58,671
Short-term bank loans	12	753,000	884,000
Convertible loan notes	13	162,064	158,839
		1,251,763	1,339,066
Net current assets		2,280,947	1,557,769
Total assets less current liabilities		5,383,961	4,562,822

Condensed Consolidated Statement of Financial Position

At June 30, 2015

<i>Notes</i>	At June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Non-current liabilities		
Deferred tax liabilities	93,566	93,383
Net assets	5,290,395	4,469,439
Capital and reserves		
Share capital	12,629	10,076
Reserves	5,132,892	4,319,078
Equity attributable to owners of the Company	5,145,521	4,329,154
Non-controlling interests	144,874	140,285
Total equity	5,290,395	4,469,439

The condensed consolidated financial statements on pages 6 to 31 were approved and authorised for issue by the Board of Directors on August 28, 2015 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 June 30, 2015

	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	Subtotal RMB'000	Attributable to non-controlling interest RMB'000	Total RMB'000
At January 1, 2015	10,076	1,264,726	459,745	71	36,122	2,596	(19,180)	321,499	2,253,499	4,329,154	140,285	4,469,439
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	-	-	-	-	-	101	-	-	-	101	-	101
Profit for the period	-	-	-	-	-	-	-	-	246,565	246,565	4,589	251,154
Total comprehensive income for the period	-	-	-	-	-	101	-	-	246,565	246,666	4,589	251,255
Dividends	-	-	-	-	-	-	-	-	(44,154)	(44,154)	-	(44,154)
Issue of shares under share option scheme	424	100,199	-	-	(15,902)	-	-	-	-	84,721	-	84,721
Placing of shares	2,129	532,391	-	-	-	-	-	-	-	534,520	-	534,520
Transaction costs on placing of shares	-	(5,386)	-	-	-	-	-	-	-	(5,386)	-	(5,386)
At June 30, 2015 (unaudited)	12,629	1,891,930	459,745	71	20,220	2,697	(19,180)	321,499	2,455,910	5,145,521	144,874	5,290,395
At January 1, 2014	9,858	1,213,108	459,745	71	14,781	3,255	(19,180)	268,155	1,790,190	3,739,983	-	3,739,983
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	-	-	-	-	-	(1,800)	-	-	-	(1,800)	-	(1,800)
Profit for the period	-	-	-	-	-	-	-	-	355,535	355,535	-	355,535
Total comprehensive income for the period	-	-	-	-	-	(1,800)	-	-	355,535	353,735	-	353,735
Dividends	-	-	-	-	-	-	-	-	(31,052)	(31,052)	-	(31,052)
At June 30, 2014 (unaudited)	9,858	1,213,108	459,745	71	14,781	1,455	(19,180)	268,155	2,114,673	4,062,666	-	4,062,666

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2015

Notes:

- (a) Special reserve represents the aggregate of:
 - (i) the difference between the consideration 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 the 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 the 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 shares in 2010.
- (b) The 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 Fucai, in respect of the interest on a 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 was further extended to December 31, 2013.
- (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. Appropriations to this reserve are 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 regulations in the PRC. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied for conversion into capital by means of a capitalisation issue.

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2015

	Six months ended June 30,	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	279,947	365,455
Investing activities		
Interest received	31,794	25,546
Purchase of property, plant and equipment	(63,013)	(43,902)
Deposits paid on acquisition of property, plant and equipment	(137,611)	(49,760)
Deposits paid on acquisition of a subsidiary	–	(200,000)
Advance payments paid for acquisition of technical knowhow	(260)	–
Refund upon the disposal of land use rights	14,629	–
Net cash used in investing activities	(154,461)	(268,116)
Financing activities		
Interest paid	(32,337)	(33,589)
Dividends paid	(44,154)	(31,052)
Net proceeds from issue of shares under share option scheme	84,721	–
Net proceeds from placing of shares	529,134	–
Deposits received in relation to capital injection in a subsidiary (note 18(a))	40,000	–
Bank loans raised	261,000	270,000
Repayment of bank loans	(392,000)	(186,000)
Net cash from financing activities	446,364	19,359
Net increase in cash and cash equivalents	571,850	116,698
Cash and cash equivalents at January 1	1,904,033	1,656,434
Effect on foreign exchange rate changes	48	(611)
Cash and cash equivalents at June 30	2,475,931	1,772,521
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	2,475,931	1,772,521

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

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 which are measured at fair value.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended June 30, 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2014.

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle

The application of the 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 June 30, 2015

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 June 30, 2015

3. SEGMENT INFORMATION (CONTINUED)

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

	Turnover		Results	
	Six months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Health and nutritional supplements	750,011	785,250	576,460	620,784
Health drinks	211,386	206,723	96,647	101,125
Pharmaceutical products	128,897	61,412	58,295	28,433
	1,090,294	1,053,385	731,402	750,342
Advertising and promotional expenses			(183,000)	(157,944)
Other operating expenses			(182,829)	(127,935)
Miscellaneous income			7,610	3,778
Change in fair value of derivative components of convertible loan notes			1,499	9,302
Interest income			31,794	25,546
Interest expenses			(37,114)	(24,619)
Profit before taxation			369,362	478,470

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, 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 June 30, 2015

3. SEGMENT INFORMATION (CONTINUED)

	At June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Assets		
Segment assets		
— health and nutritional supplements	2,482,052	2,365,832
— health drinks	568,989	569,907
— pharmaceutical products	1,108,752	1,062,033
	4,159,793	3,997,772
Deferred tax assets	—	83
Unallocated corporate assets (note a)	2,475,931	1,904,033
Consolidated total assets	6,635,724	5,901,888
Liabilities		
Segment liabilities		
— health and nutritional supplements	199,381	157,796
— health drinks	51,465	41,134
— pharmaceutical products	33,768	38,626
	284,614	237,556
Taxation	52,085	58,671
Deferred tax liabilities	93,566	93,383
Unallocated corporate liabilities (note b)	915,064	1,042,839
Consolidated total liabilities	1,345,329	1,432,449

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 June 30, 2015

4. PROFIT BEFORE TAXATION

	Six months ended June 30,	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets included in		
— cost of goods sold	8,147	3,249
— administrative expenses	5,046	6,096
	13,193	9,345
Advertising and promotional expenses	183,000	157,944
Depreciation of property, plant and equipment	72,537	47,642
Operating lease rentals in respect of land use rights	2,481	2,043
Change in fair value of derivative components of convertible loan notes	(1,499)	(9,302)

The cost of goods sold represent the cost of inventories recognised as expenses during the period.

5. TAXATION

	Six months ended June 30,	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax	(115,096)	(118,080)
PRC withholding tax	(884)	(2,648)
Deferred taxation	(2,228)	(2,207)
	(118,208)	(122,935)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

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 June 30,	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividends		
— 2014 final dividend of HK4.2 cents (2014: 2013 final dividend of HK3.5 cents) per share paid	44,154	31,052
— 2015 proposed interim dividend of HK3.0 cents (2014: 2014 interim dividend of HK3.0 cents) per share	39,630	26,796

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 1,600,028,666 shares in issue as at the date of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended June 30,	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	246,565	355,535

	2015	2014
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,256,538	1,123,036
Effect of dilutive potential ordinary shares on share options	3,088	–
Effect of dilutive potential ordinary shares on convertible loan notes	12,056	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,271,682	1,123,036

The computation of diluted earnings per share for the period ended June 30, 2014 has not included the effect of the exercise of the Company's convertible loan notes as the effect is immaterial.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred RMB30,991,000 (2014: RMB4,047,000) on the acquisition of machinery and equipment and RMB106,836,000 (2014: RMB141,841,000) on construction in progress for the expansion of production facilities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

9. INVENTORIES

	At June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Raw materials	30,430	21,417
Work in progress	10,775	12,566
Finished goods	41,265	26,610
Merchandise for resale	3,954	3,846
Packaging materials	21,887	9,263
	108,311	73,702

10. TRADE AND OTHER RECEIVABLES

	At June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Trade receivables	757,662	736,364
Bills receivables	3,704	1,979
	761,366	738,343
Deposits paid to suppliers (note a)	39,666	35,701
Property rental deposits	21,576	20,152
Prepayments for media airtime	57,687	64,406
Other receivables, prepayments and deposits	68,173	60,498
	948,468	919,100

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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 June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Age		
0–90 days	524,051	466,299
91–180 days	205,125	232,073
181–365 days	24,051	36,857
Over 1 year	8,139	3,114
	761,366	738,343

Note:

- (a) Included in the prepayment, RMB4,345,000 (December 31, 2014: nil) are amounts due from a related company of which Mr. Wang Fucai (Chairman and Chief Executive Officer) is also the controlling shareholder of that related company. The amounts are unsecured and interest free.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

11. TRADE AND OTHER PAYABLES

	At June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Trade payables (note a)	103,011	97,686
Other tax payables	40,127	43,452
Customers' deposits	24,280	29,323
Advertising accruals	28,892	20,798
Deposits received in relation to capital injection in a subsidiary (note 18(a))	40,000	–
Other payables	9,882	14,936
Payroll and welfare payables	14,395	14,259
Construction payables	22,049	13,411
Other accruals	1,978	3,691
	284,614	237,556

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

11. TRADE AND OTHER PAYABLES (CONTINUED)

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 June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Age		
0–90 days	81,458	81,998
91–180 days	11,987	5,679
181–365 days	2,875	4,849
Over 1 year	6,691	5,160
	103,011	97,686

Note:

- (a) Included in the trade payables as at December 31, 2014, RMB2,082,000 (June 30, 2015: nil) are amounts due to a related company which Mr. Wang is also the controlling shareholder of that related company. The amounts were unsecured and interest free.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

12. SHORT-TERM BANK LOANS

	At June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 RMB'000 (audited)
Short-term bank loans		
— secured	73,000	104,000
— unsecured	680,000	780,000
	753,000	884,000
The Group's bank loans carry interest at		
— variable rate	667,000	754,000
— fixed rate	86,000	130,000
	753,000	884,000

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 June 30, 2015, the Group has variable rate bank loans carrying interest at 5.6% to 7.2% (December 31, 2014: 5.6% to 7.2%) per annum and fixed rate bank loans carrying interest at 6.0% to 6.6% (December 31, 2014: 6.0% to 6.4%) per annum.

As at June 30, 2015, the secured bank loans are secured by the Group's land use rights with an aggregate carrying value of approximately RMB151,081,000 (December 31, 2014: RMB154,147,000).

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB152,048,000 (December 31, 2014: RMB112,000,000).

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

13. CONVERTIBLE LOAN NOTES

On May 28, 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 note in the principal amount of HK\$200,000,000 (equivalent to RMB157,246,000) on the first completion date and a second tranche convertible loan note 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 the Seychelles and is a wholly-owned subsidiary of CITIC Merchant Co., Limited. The net proceeds from issuing the convertible loan notes is 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 businesses 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 July 22, 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 July 22, 2015 at a conversion price of HK\$3 per share. If the convertible loan notes have not been converted, they will be redeemed on July 22, 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 July 22, 2015, to redeem any principal amount of the first tranche convertible loan notes outstanding at face value thereof with accrued interest.

The convertible loan notes contain three components: a liability component, a conversion option derivative and an 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 June 30, 2015

13. CONVERTIBLE LOAN NOTES (CONTINUED)

At the issuance date of July, 22 2013, the fair value of the liability component and the derivative component, including the conversion option derivative and early redemption derivative, amounted to HK\$177,314,000 (equivalent to RMB139,410,000) and HK\$22,686,000 (equivalent to RMB17,836,000) respectively.

At June 30, 2015, the liability component which is measured at amortised cost and the fair value of derivative components including the conversion option derivative and the early redemption option derivative, amounted to HK\$204,490,000 (equivalent to RMB161,263,000) (December 31, 2014: HK\$198,433,000, equivalent to RMB156,539,000) and HK\$1,016,000 (equivalent to RMB801,000) (December 31, 2014: HK\$2,917,000, equivalent to RMB2,300,000). The change in fair value of the derivative components amounted to HK\$1,901,000 (equivalent to RMB1,499,000) (December 31, 2014: HK\$13,991,000, equivalent to RMB11,019,000) and is recognised in the profit or loss during the period.

The second tranche convertible bonds and warrants are subject to the fulfilment of certain conditions precedent under the subscription agreement on or before the second long stop date, being January 22, 2015. As the second long stop date has been passed and the second completion conditions have not been fulfilled, the second completion under the subscription agreement will not take place and the transaction under the second completion shall cease to be of any effect. As a result, the Company will not issue the second tranche convertible bonds and the warrants in future.

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 January 1, 2015 (audited)	157,246	156,539	2,300	158,839
Interest charged (net of interest paid)	–	4,777	–	4,777
Change in fair value	–	–	(1,499)	(1,499)
Currency realignment	–	(53)	–	(53)
At June 30, 2015 (unaudited)	157,246	161,263	801	162,064

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

13. CONVERTIBLE LOAN NOTES (CONTINUED)

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

Valuation date	At June 30, 2015	At December 31, 2014	At July 22, 2013 (the issuance date)
Spot price	HK\$2.32	HK\$2.02	HK\$2.16
Conversion price	HK\$3.00	HK\$3.00	HK\$3.00
Dividend yield	0.00%	2.62%	2.00%
Time to maturity	0.06 years	0.56 years	2 years
Risk-free rate	0.058%	0.0805%	0.31%
Volatility	72%	45%	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.

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 are observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in an 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).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

14. FAIR VALUE MEASUREMENTS OF DERIVATIVES (CONTINUED)

Financial liabilities at FVTPL	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	June 30, 2015	December 31, 2014		
	RMB'000	RMB'000	(Note)	
Conversion option derivative and early redemption option embedded in the convertible loan notes classified as derivative financial liabilities	801	2,300	Level 3	The fair values of the embedded conversion option and the issuer's early redemption option were determined using the Binomial option pricing model, based on spot price, conversion price, dividend yield, time to maturity, risk-free rate, volatility and a discount rate that reflects the credit risk of the 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.

15. SHARE OPTIONS SCHEME

2010 Share Option Scheme

Pursuant to the written resolutions passed by the then sole shareholder on February 1, 2010, the Company adopted the share option scheme (the "2010 Share Option Scheme") to provide incentives for qualified participants as defined in the Share Option Scheme to subscribe for 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 a 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

15. SHARE OPTIONS SCHEME (CONTINUED)

2010 Share Option Scheme (continued)

On July 4, 2014, a total of 99,600,000 share options were granted to 72 qualified participants, including the directors of the Company, at an exercise price of HK\$2 per share option under the terms of the 2010 Share Option Scheme. These options are exercisable starting from the date of acceptance of the offer by each Grantee to July 3, 2016 (both days inclusive). All share options vested immediately at the date of grant. Total consideration received from the participants for taking up the options granted by the Company was insignificant.

The closing price of the Company's shares immediately before July 4, 2014, the date of grant, was HK\$1.77.

The fair value of the options determined at the grant date using the Binomial model and recognised immediately in profit or loss was HK\$37,540,000 (equivalent to RMB29,614,000).

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

	July 4, 2014
Grant date share price	HK\$1.77
Exercise price	HK\$2.00
Expected life	2 years
Expected volatility	50%
Dividend yield	1.93%
Risk-free interest rate	0.505%

In accordance with the terms of the 2010 Share Option Scheme, options vested at the date of grant. 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 will result in changes in the fair value of the options.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

15. SHARE OPTIONS SCHEME (CONTINUED)

2010 Share Option Scheme (continued)

A summary of the movements of the outstanding options during the year under the 2010 Share Option Scheme is as follows:

Types of particulars	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options					
				Outstanding at 1.1.2014	Granted during the year	Exercised during the year	Outstanding at 12.31.2014	Exercised during the period	Outstanding at 6.30.2015
Directors	7.4.2014	7.4.2014-7.3.2016	2	-	2,200,000	(200,000)	2,000,000	(200,000)	1,800,000
Employees	7.4.2014	7.4.2014-7.3.2016	2	-	15,400,000	(300,000)	15,100,000	(12,348,000)	2,752,000
Others [#]	7.4.2014	7.4.2014-7.3.2016	2	-	82,000,000	(27,111,000)	54,889,000	(41,167,000)	13,722,000
				-	99,600,000	(27,611,000)	71,989,000	(53,715,000)	18,274,000

[#] The Company's share options granted to other participants are measured by reference to the fair value of options granted to directors/employees of the Group since the fair value of the services provided by such other participants to the Group cannot be estimated accurately.

In respect of share options exercised during the year, the weighted average share price at the date of exercise was HK\$2.54 (December 31, 2014: HK\$2.58).

16. CAPITAL COMMITMENTS

	At June 30, 2015 RMB'000 (unaudited)	At December 31, 2014 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	183,359	217,359
— technical knowhow	50,844	51,104
	234,203	268,463

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

17. RELATED PARTY TRANSACTION

Details of the balances with a related party are set out in note 10 and note 11.

During the period, the Group entered into the following transactions with a related party.

Related party	Relationship	Nature of transactions	June 30, 2015 RMB'000	December 31, 2014 RMB'000
Jiangsu Ruinian Qianjin Pharmaceutical Company Limited	(Note 1)	Trade purchases	6,435	7,938

In the opinion of the directors, the above transactions were undertaken in the ordinary course of business on terms mutually agreed between the Group and the related party.

Note 1: Mr. Wang is the controlling shareholder of the company.

Compensation of key management personnel

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

	Six months ended June 30, 2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Salaries and other benefits	3,252	4,867
Retirement benefits scheme contributions	63	76
	3,315	4,943

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2015

18. EVENTS AFTER THE END OF THE REPORTING PERIOD

The following events took place subsequent to June 30, 2015:

(a) A deemed disposal of an equity interest in a subsidiary

On June 1, 2015, China Railway Trust Co., Ltd 中鐵信託有限責任公司 (“New Investor”) agreed and paid RMB40 million as a capital injection into a subsidiary of the Company, Anhui Sangtian Green Food Company Limited 安徽省桑田綠色食品有限公司 (“Anhui Sangtian”). The transaction was completed by July 7, 2015 and after the capital injection, the New Investor will hold approximately a 44.44% equity interest in Anhui Sangtian, while the equity interest in the subsidiary of the Group will proportionally decrease from 100% to 55.56%. Anhui Sangtian will remain a subsidiary of the Group subsequent to the deemed disposal.

(b) Conversion of convertible loan notes

On July 10, 2015, the Company received a conversion notice from Newport Consulting Limited (as the holder of the first tranche convertible loan notes) for the exercise of the conversion rights attached to the first tranche convertible loan notes in respect of the principal amount of HK\$200,000,000 at the conversion price of HK\$3.00 per share. The principal amount of HK\$200,000,000 of the first tranche convertible loan notes of which the conversion rights are being exercised represents 100% of the first tranche convertible loan notes held by Newport Consulting Limited.

(c) Placing of existing shares and top-up subscription of new shares under general mandate

On July 22, 2015, the Company entered into a placing agreement and the top-up subscription of new shares under general mandate, pursuant to which 59,000,000 new shares of the Company would be placed with independent investors at the placing price of HK\$2.00 per share. The maximum number of Placing Shares represent approximately 3.83% of the existing issued share capital of the Company as at the date of this announcement and approximately 3.69% of the issued share capital of the Company as enlarged by the issue and allotment of the top-up subscription shares. The entire net proceeds from the placing and top-up subscription of new shares, are intended to be used for mergers and acquisitions and general working capital. Details of the placing and the top-up subscription, together with the completion of the placing under general mandate, are disclosed in announcements of the Company dated July 22, 2015 and July 28, 2015 respectively.

Management Discussion and Analysis

BUSINESS REVIEW

The Group's business was stable in the first half of 2015 as turnover increased by 3.5% year on year to RMB1,090.3 million. However, net profit decreased by 30.6% year on year to RMB246.6 million. The overall gross profit margin decreased to 67.1% year on year from 71.2% in the first half year of 2014 due to the change in sales mix, higher depreciation charges and packaging costs in the first half of 2015. The decrease in net profit by RMB109.0 million was mainly attributable to decrease in gross profit margin, the higher depreciation charges on fixed assets and increase in selling and marketing expenses. Overall depreciation expenses increased by about RMB24.9 million and advertising expenses increased by around RMB25.1 million respectively when compared with the first half of 2014. There was also an additional exchange loss of RMB12.0 million associated with placement of new shares. The rental expenses of Real Nutri Health Stores also increased by about RMB7.5 million when compared with those of the first half of 2014.

During the period, sales performances of major business units met the Group's expectations. Sales of the flagship product amino acids tablets and other health supplement products remained stable. Sales of health drinks grew by 2.3% year on year to RMB211.4 million. Sales of pharmaceutical products achieved encouraging growth of 109.9% year on year to RMB128.9 million, mainly due to the additional sales revenue from Anhui Province Shuangke Pharmaceutical Company Limited ("Anhui Shuangke") that the Group acquired last year.

The Group's retail network expanded steadily during the period. As at June 30, 2015, the Group's health and nutritional supplement products were sold through approximately 80,000 third-party retail outlets in China (December 31, 2014: approximately 77,000). During the period, newly developed retail outlets included Taizhou C & U Supermarket Chain, Sanjiang Shopping Supermarket Chain, Wenzhou Lelin Supermarket Chain and Wenzhou Zhenshenghuo Supermarket Chain. New retail outlets for the Group's health drinks during the period included Meiyijia Convenience Store Chain, Alldays and Kedi Convenience Store Chain, Shanghai C-Store Chain and 7-Eleven Convenience Store Chain. The Group's pharmaceutical products were sold to about 700 hospitals nationwide.

Besides continuing to expand the network of Real Nutri Health Stores, the Group also enhanced the existing core functions of Real Nutri Health Stores by investing in improvement of infrastructure and the staff's skills in order to provide members of its customer base with more diverse and prestigious services. As at June 30, 2015, the number of Real Nutri Health Stores reached around 200 and these stores together contributed revenue of about RMB124.8 million, which accounted for 11.4% of the total revenue. Real Nutri Health Stores contributed steadily to profitability and at the same time laid the solid foundations for the Group's development of the local markets. The registered members of Real Nutri Health Club increased to about 380,000. Over 200 club member activities were organized by the Group, including health knowledge seminars, Chinese medicine regimen classes and members' health vacation.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

The Group actively developed Internet-enabled direct sales business to keep abreast of the recent e-commerce boom. The Group's Internet-enabled direct sales business contributed revenue of RMB41.6 million, which accounted for 3.8% of the total revenue during the period. In addition to launching health supplements through famous online portals, including Taobao Tmall, 1 The Store and JD.Com, the Group expanded its business network in June 2015 to WeChat Mall, a new business model derived from the mobile internet. The Group aspires to establish the top healthcare platform in WeChat Mall. Letting users of the Group's nutritional health products to share their first-hand experience with their friends and relatives on social media is the most convincing mean of promoting such products. The Group wishes to build the Real Nutri WeChat Mall distribution network through the popular social media WeChat and to achieve deep market penetration for Real Nutri brand and products via personal recommendation and fans group promotion. As a result, the Group can fully utilize the mobile platforms for social networking and e-commerce to establish a brand new sales channel. The Group launched a recruitment program for its first thousand WeChat Mall distributors in June. There are now over 1,000 participants registered as Real Nutri's WeChat Mall distributors. These participants are mainly individuals who are around 30 years old, including housewives, full-time and part-time employees, former salespersons at Real Nutri's retail outlets and other experienced WeChat Mall operators. The major products to be promoted in the first phase are ladies' skincare and slimming products, health drinks, and imported health supplements series addressing the health needs of different classes of people. To support the development of WeChat Mall distribution network, the Group offers a very attractive sales incentive program with three tiers of commissions, including commission on sales, first- and second-tier commission on referral. The WeChat Mall system will compute the commission on each order automatically and commission would be credited directly to a bank account designated by the distributor. The Group also provides participants with a series of supportive services, for instances, training protocols, resources centers, products center as well as customer service and logistics center. The Group has set the target of recruiting 2,000 distributors by the end of 2015 and nurture 500 core distributors' capabilities, with a view to boosting sales while bringing new business opportunities for the Group.

The Group pressed ahead with its marketing strategy to enhance corporate image and brand popularity for the long term through its multifarious promotions using various platforms including traditional multimedia, mobile internet and public transportation system as well as innovative outdoor advertisements. During the period, The Group held over 500 promotional events and participated in a number of mega exhibitions as well as sponsorship events including The 13th Elderly Healthcare Industry Forum & Expo in Nanjing, The 2015 China Summer Conference Sales Festival & Grand Summer Healthcare Exhibition in Guangzhou, The 2015 National Technology Week & The 27th Wuxi Science Popularization Week as well as the China (Wuxi) Elderly Health Industry Expo in Wuxi. In addition, the Group's Amino Acids Science Exhibition Hall in its headquarters in Mashan, Wuxi has been accredited as Education Foundation for Science Popularization by a number of educational and scientific bodies in Wuxi. The Group proactively conducted marketing on the internet by placing advertisements on popular portals like Taobao, Sina Weibo, Letv and ifeng. It also regularly updated latest healthcare intelligence and corporate news on its official Weibo and WeChat in order to maximize Real Nutri's exposure in the media.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

For the health drink business, the Group held about 150 promotional activities like complimentary health drinks sessions in shopping malls and supermarkets, roadshows for products and thematic promotional activities in Shanghai, Wuxi, Suzhou and Shenyang. It also sponsored a number of large events, including The 92nd China Food and Drinks Fair in Chengdu, U-Energy 2015 Happy Time Lobster, Beer & Food Festival, and The 2015 China Wuxi Fongsheng Cup – The First Binhu District Amateur Football Champion.

The Group's medicine business unit held over 60 technical promotional activities and took part in a number of major medical conferences, including The 21st Annual Meeting of Chinese Society of Dermatology in Anhui, and The 30th Asia-Pacific Academy of Ophthalmology Congress Held in Conjunction with The 20th Congress of the Chinese Ophthalmological Society in Guangzhou. Besides, Anhui Shuangke newly developed a network of 14 hospitals in the first half of the year, including Jiangsu Nanjing South East Eye Hospital, Hunan Mayang Aier Eye Hospital and The Gulou Hospital of Traditional Chinese Medicine Hospital of Beijing.

To maintain the brand's competitive edge, the Group has been giving priority to research and development ("R&D") under the principle of combining proprietary innovation and collaboration with external parties to elevate the standard and progress of R&D. The Group joins the research expert panel of the Peking University Health Science Center to found a joint laboratory for the development of premium quality health supplement products with specific healthcare purposes. The Group also introduced high quality overseas health supplements to broaden the product portfolio and cater for the diverse and yet specific nutritional needs of different consumers. During the period, the Group launched a number of new health supplement products including Lecithin Softgel for maintaining cardiovascular health, Mega-Prostate Complex for regulating male hormones and restoring male energy, Sweet Dream Complex for alleviating insomnia and improving the quality of sleep, Natto-Monascus Tablets for lowering the cholesterol level, Cordyceps Militaries Enzyme Complex for enhancing immunity and improving gastrointestinal function as well as Paecilomyces Hepiali Chen Amino Acids Tablet for enhancing immunity. Regarding health drinks business, the Group launched Rose and Lime amino acid drinks with new PET package to enrich the product series for drinks. During the period, the Group made capital investment of about RMB200.6 million to construct building facilities and add state of the art equipment at different production bases. The Group invested about RMB57.1 million in its health supplement production base in Wuxi, about RMB7.5 million in its pharmaceutical production base in Nanjing, about RMB38.8 million in its next-generation polypeptide production base in Suqian and about RMB91.2 million in its raw material plantation base in Suzhou. The investments were necessary for maintaining sufficient production capacities to match the needs of the Group's mid to long term business expansion plan and ensure the products' premium quality.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

Corporate Social Responsibility

The Group has been dedicated to the development of healthcare business and has paid great attention to its social responsibility through charity works. During the period, the Group sponsored the Lantern Riddles event hosted by Wuxi Fengying Elderly Home, donated children's health supplements to Guizhou Zhangtun Primary School, conducted the community health services activity China Health Walk whereby a team of volunteer doctors and nutritionists provided free health check services for local residents on Mashan Street, Binhu District, Wuxi, as well as participated in Love Teeth Day and Skip Lunch Day of The Community Chest of Hong Kong.

Investor Relations

The Group has been maintaining good communications with investors via various channels so as to enable local and overseas investors to gain a better understanding of the Group's business and latest developments. During the period, the Group participated in a number of roadshows and the investment conferences organized by major securities firms in New York, Singapore, Shanghai, Wuxi, Shenzhen and Hong Kong. In addition, the Group arranged a number of site visits, teleconferences and one-on-one meetings for international and domestic institutional investors to facilitate a more thorough understanding of the current status of the Group's operations and its future development plans.

FINANCIAL REVIEW

For the six months ended June 30, 2015, the turnover of the Group was RMB1,090.3 million, representing an increase of approximately 3.5% over the same period last year. Profit attributable to owners of the Company for the period has decreased to RMB246.6 million by approximately 30.6% over the same period last year. The Company's basic earnings per share decreased to RMB19.6 cents per share by approximately 38.2% over the same period last year.

Liquidity and capital resources

As at June 30, 2015, the Group has current assets of RMB3,532.7 million (December 31, 2014: RMB2,896.8 million) and current liabilities of RMB1,251.8 million (December 31, 2014: RMB1,339.1 million). The current ratio was 2.8 as at June 30, 2015 (December 31, 2014: 2.2).

As at June 30, 2015, the Group has bank loans in the amount of RMB753.0 million (December 31, 2014: RMB884.0 million) and a gearing ratio of 11.3% (December 31, 2014: 15.0%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets. As at June 30, 2015, the Group has pledged the Group's land use rights in amount of RMB151.1 million for the bank borrowing (December 31, 2014: RMB154.1 million).

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Capital commitments and contingent liabilities

As at June 30, 2015, the Group's capital commitments were approximately RMB234.2 million (December 31, 2014: RMB268.5 million), all of which were related to property, plant and equipment and technical knowhow. The Group has no material contingent liabilities as at June 30, 2015 (December 31, 2014: 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.

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), the total net proceeds from placing in October 2010 amounted to approximately HK\$597.2 million (RMB517.1 million), the total net proceeds from placing in April 2015 amounted to approximately HK\$303.5 million (RMB239.3 million) and the total net proceeds from placing in June 2015 amounted to approximately HK\$367.0 million (RMB289.4 million). As at June 30, 2015, net proceeds of accumulated approximately RMB1,099.1 million has been applied on market expansion, capital expenditures, product development and other working capital, and the remaining of the net proceeds RMB639.3 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, in the announcements dated October 28, 2010, April 12, 2015 and June 4, 2015.

PROSPECTS

Prospects of China's healthcare market remain very promising in medium and long term. Aspiring to become a leading enterprise in healthcare industry, the Group will strive to capture multiple development opportunities and will promptly cope with the changing market conditions.

Management Discussion and Analysis

PROSPECTS (CONTINUED)

The Group enjoys geographical competitive edge in eastern and southern China and will reinforce its sales network in these regions. It will also keep exploring markets in new areas in order to deepen the market penetration of its products and boost the sales growth. For the local market development, the Group will press on with its plan for Real Nutri Health Stores by opening around 10 new stores in the second half of 2015 in such places as Yancheng, Zhongshan and Changzhou. In addition, the Group will actively tap the potential of a new, promising mode of sales by establishing an interactive online-to-offline (O2O) sales platform and a mega data system. It will use the platform and system to analyze and track the data about the membership and leverage its call centers for its products and services and the Real Nutri Health Store service network to provide consumers with a brand new, seamless online and offline sales service. The Group will also boost the sales of its products through its health club members at the same time.

For the further expansion of its sales network, the Group signed a strategic cooperation agreement in May 2015 with Shenzhen China Associate (Group) Co., Ltd and Shenzhen City Ailire Investment Consulting Company Limited (“Ailire”) to jointly develop China’s health supplement market, following the signing of a memorandum of understanding in January 2015 for the Group’s proposed acquisition of the entire shareholding in Ailire. This cooperation will accelerate the Group’s distribution network expansion and quickly raise the awareness of its brand in China’s consumer market, especially in eastern, southern and central China. The Group aims to complete the proposed acquisition this year and strives for the three benefits contemplated from it as stated below:

- (1) The Group will introduce Real Nutri Health Stores’ successful sales model into Ailire’s network of pharmacies so as to generate extra high-margin sales from amino acids health products and other premium health supplements on top of Ailire’s existing medicine products. The move will create strong synergy between the Group’s existing businesses and Ailire;
- (2) Ailire pharmacy stores’ advantageous locations and high customer flow will be a great asset for the Real Nutri Health Club in recruiting new members and quickly expanding its membership base. Ailire’s pharmacies can also act as a support network for the logistics and services of the Group’s online-to-offline (O2O) sales in the future; and
- (3) The facades and shop signs of Ailire’s hundreds of pharmacies can be renamed as “Real Nutri Grand Pharmacy” in a short time. This can greatly enhance Real Nutri’s visibility in local communities and make the promotion of the Group’s brand highly efficient in the vast areas of central and southern China.

Management Discussion and Analysis

PROSPECTS (CONTINUED)

The Group will strengthen the Real Nutri brand and deepen the market penetration of its products by stepping up advertisements and marketing efforts and broadening of product portfolio. The Group will identify consumers' preferences for health supplements as well as their requirements for efficacies of such products when developing and launching more health supplement products of specific functions to the satisfaction of consumers. The Group plans to introduce a number of new health supplements to the market in the second half of the year, including Real Nutri Multi-vitamin B Tablets, Figwort Ginseng Amino Acids Capsules, Q10 Enzyme Softgel, Slimming Tea and Rock Sugar Bird's Nest Tonic. The Group has been dedicated to developing high-quality health supplements for children and has been cooperating actively with a famous overseas dairy products manufacturer in research on and production of premium infant milk powders. The related import and export licenses and trademark registration have been completed. The Group has scheduled the launch of new Real Nutri infant milk powders imported from France in the fourth quarter of 2015. In the development of beverage business, the Group will continue with its strategy for increasing the market penetration of its health drinks in second- and third-tier cities in China by holding over 800 small and large scale promotional events at shopping malls, convenience stores and pharmacies. The marketing campaigns will focus on the promotion of high-end amino acids essence drink "U-Energy" in order to popularize the amino acids products amongst various consumer groups. For the medicine business, the Group will reinforce its cooperation with leading research institutes in new product development to cater for market demand and to introduce more new medicines.

The Group now contemplates spinning off its beverage business through a separate listing on the Stock Exchange of Hong Kong this year, and has engaged a sponsor and other professional parties for the proposed spin-off which would provide a good opportunity for the Group to unlock the underlying value of the beverage business and to maximize the shareholders' value in the long run.

By consolidating its businesses and leveraging its advantages, the Group aims to establish an influential health care business through innovation that matches the market trend. It will carry out this strategy with three core competencies as professionalism, dedicated service and advanced technological know-how in order to generate higher returns to shareholders.

HUMAN RESOURCES

As at June 30, 2015, the Group had a work force of 975 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 June 30, 2015 (2014: HK3.0 cents) to the shareholders whose names appear on the register of members of the Company on Thursday, October 8, 2015. The interim dividend will be payable on Friday, October 30, 2015.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from Tuesday, October 6, 2015 to Thursday, October 8, 2015, 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 Monday, October 5, 2015.

Other Information

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

As at June 30, 2015, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, are set out below:

Name of Director	Capacity	Number and class of securities	Number of Shares subject to options granted under the Share Option Scheme ⁽¹⁾	Approximate shareholding percentage (%)
Mr. Wang Fucai ⁽²⁾	interest of a controlled corporation	263,468,394 Shares (L)		17.87%
	short position	6,533,660 Shares (S)		0.44%
	beneficial owner		400,000 Shares (L)	0.03%
Mr. Yu Yan	beneficial owner		200,000 Shares (L)	0.01%
Mr. Yi Lin	beneficial owner		200,000 Shares (L)	0.01%
Mr. Zhang Yan	beneficial owner		200,000 Shares (L)	0.01%
Dr. Wong Lung Tak Patrick, BBS, J.P.	beneficial owner	100,000 Shares (L)	200,000 Shares (L)	0.02%
Dr. Fong Chi Wah	beneficial owner		200,000 Shares (L)	0.01%
Mr. Chan Kee Ming	beneficial owner		200,000 Shares (L)	0.01%
Mr. Xu Hua Feng	beneficial owner		200,000 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 June 30, 2015, 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

The Company has conditionally adopted a Share Option Scheme ("2010 Share Option Scheme") on February 1, 2010.

On July 4, 2014, 99,600,000 share options have been granted under the 2010 Share Option Scheme at an exercise price of HK\$2.0 per share option. As at June 30, 2015, there are 18,274,000 share options outstanding under the 2010 Share Option Scheme.

Set out below are details of the outstanding options granted under the 2010 Share Option Scheme:

Grantee	Number of options outstanding on January 1, 2015	Exercised during the period	Number of options outstanding up to June 30, 2015
(1) Directors			
Mr. Wang Fucai	400,000	—	400,000
Mr. Yu Yan	200,000	—	200,000
Mr. Yi Lin	200,000	—	200,000
Mr. Zhang Yan	200,000	—	200,000
Ms. Au-yeung Kam Ling Celeste	200,000	200,000	—
Dr. Wong Lung Tak Patrick, BBS, J.P.	200,000	—	200,000
Dr. Fong Chi Wah	200,000	—	200,000
Mr. Chan Kee Ming	200,000	—	200,000
Mr. Xu Hua Feng	200,000	—	200,000
(2) Employees and others	69,989,000	53,515,000	16,474,000
Total	71,989,000	53,715,000	18,274,000

Other Information

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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at June 30, 2015, 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	17.87%
	short position	6,533,660	0.44%
Qin Shifeng ⁽²⁾	interest of spouse	263,868,394	17.90%
	short position	6,533,660	0.44%

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 400,000 share options which Mr. Wang is interested under the 2010 Share Option Scheme 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' 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.

The independent non-executive Directors have also reviewed the compliance by Mr. Wang Fucai 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 Fucai 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 June 30, 2015. 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 June 30, 2015 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 June 30, 2015, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company’s listed securities.

Other Information

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers (the “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 June 30, 2015.

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 June 30, 2015, 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 June 30, 2015.

On behalf of the Board

Wang Fucai

Chairman

Hong Kong, August 28, 2015