

A large, artistic splash of water in shades of light blue and white, set against a background of a bright sky with soft clouds. The water droplets are captured in mid-air, creating a sense of motion and freshness. The overall aesthetic is clean and modern.

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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

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

Elite Partners CPA Limited
Certified Public Accountants
10/F, 8 Observatory Road
Tsim Sha Tsui
Kowloon, Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
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 June 30,		Change %
	2017 RMB'000	2016 RMB'000	
Revenue	446,936	649,166	(31.2)%
Gross profit	248,776	418,427	(40.5)%
Profit attributable to owners of the Company	6,857	67,921	(89.9)%
Basic earnings per share (RMB cents)	0.4	4.3	(90.7)%

Report on Review of Condensed Consolidated Financial Statements

For the six months ended June 30, 2017



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 27, which comprise the condensed consolidated statement of financial position as of June 30, 2017 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

For the six months ended June 30, 2017

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.

Elite Partners CPA Limited

Certified Public Accountants

Yip Kai Kin

Practising Certificate Number: P05131

Hong Kong

August 30, 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2017

	NOTES	Six months ended June 30,	
		2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Revenue		446,936	649,166
Cost of goods sold		(198,160)	(230,739)
Gross profit		248,776	418,427
Other income		35,679	22,166
Other gains and losses		(1,948)	560
Selling and distribution costs		(153,680)	(223,234)
Administrative expenses		(80,274)	(84,381)
Research and development costs		(1,989)	—
Finance costs		(23,363)	(12,991)
Profit before taxation	4	23,201	120,547
Taxation	5	(17,154)	(46,513)
Profit for the period		6,047	74,034
Other comprehensive income (expense) for the period			
— exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss		1,492	(906)
Total comprehensive income for the period		7,539	73,128
Profit for the period attributable to:			
— Owners of the Company		6,857	67,921
— Non-controlling interests		(810)	6,113
		6,047	74,034
Total comprehensive income for the period attributable to:			
— Owners of the Company		8,349	67,015
— Non-controlling interests		(810)	6,113
		7,539	73,128
Earnings per share	7		
— Basic		0.4 cents	4.3 cents
— Diluted		0.4 cents	4.3 cents

Condensed Consolidated Statement of Financial Position

At June 30, 2017

	NOTES	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	2,104,272	2,191,501
Land use rights		353,152	356,007
Goodwill		113,650	113,650
Intangible assets		347,094	371,362
Deposits made on acquisition of property, plant and equipment		172,031	177,173
Advance payments for acquisition of technical knowhow		93,386	92,216
Deposits paid for acquisition of a subsidiary		200,000	–
		3,383,585	3,301,909
Current assets			
Inventories	9	98,214	99,975
Trade and other receivables	10	781,281	742,367
Bank balances and cash		2,456,410	2,554,938
		3,335,905	3,397,280
Current liabilities			
Trade and other payables	11	182,896	199,456
Taxation		7,792	15,152
Short-term bank loans	12	810,222	772,041
		1,000,910	986,649
Net current assets		2,334,995	2,410,631
Total assets less current liabilities		5,718,580	5,712,540
Non-current liabilities			
Deferred tax liabilities		72,411	75,040
Net assets		5,646,169	5,637,500

Condensed Consolidated Statement of Financial Position

At June 30, 2017

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Capital and reserves		
Share capital	13,772	13,772
Reserves	5,442,142	5,432,663
Equity attributable to owners of the Company	5,455,914	5,446,435
Non-controlling interests	190,255	191,065
Total equity	5,646,169	5,637,500

The condensed consolidated financial statements on pages 6 to 27 were approved and authorised for issue by the Board of Directors on August 30, 2017 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, 2017

	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, 2017	13,772	2,190,742	459,745	140	-	(2,435)	(19,180)	372,257	2,431,394	5,446,435	191,065	5,637,500
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	-	-	-	-	-	1,492	-	-	-	1,492	-	1,492
Profit for the period	-	-	-	-	-	-	-	-	6,857	6,857	(810)	6,047
Total comprehensive income for the period	-	-	-	-	-	1,492	-	-	6,857	8,349	(810)	7,539
Recognition of equity-settled share-based payment	-	-	-	-	1,130	-	-	-	-	1,130	-	1,130
At June 30, 2017 (unaudited)	13,772	2,190,742	459,745	140	1,130	(943)	(19,180)	372,257	2,438,251	5,455,914	190,255	5,646,169
At January 1, 2016	13,841	2,195,301	459,745	71	19,228	629	(19,180)	369,419	2,536,727	5,575,781	185,465	5,761,246
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	-	-	-	-	-	(906)	-	-	-	(906)	-	(906)
Profit for the period	-	-	-	-	-	-	-	-	67,921	67,921	6,113	74,034
Total comprehensive income for the period	-	-	-	-	-	(906)	-	-	67,921	67,015	6,113	73,128
Share repurchased	(69)	(4,559)	-	69	-	-	-	-	(69)	(4,628)	-	(4,628)
Dividends	-	-	-	-	-	-	-	-	(56,278)	(56,278)	-	(56,278)
At June 30, 2016 (unaudited)	13,772	2,190,742	459,745	140	19,228	(277)	(19,180)	369,419	2,548,301	5,581,890	191,578	5,773,468

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017

Notes:

- (a) The special reserve represents the aggregate of the difference between:
 - (i) 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 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 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) The capital redemption reserve arose from repurchase of shares. The amounts represent the nominal amount of the shares repurchased.
- (c) The 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 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 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. 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 a capitalisation issue.

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017

	Six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Net cash from operating activities	66,071	72,368
Investing activities		
Interest received	21,418	20,483
Purchase of property, plant and equipment	(1,168)	(84,314)
Deposits paid on acquisition of property, plant and equipment	–	(54,578)
Deposits paid on acquisition of a subsidiary	(200,000)	–
Advance payments paid for acquisition of technical knowhow	(1,170)	–
Net cash used in investing activities	(180,920)	(118,409)
Financing activities		
Interest paid	(18,134)	(12,991)
Dividends paid	–	(56,278)
Bank loans raised	347,920	321,270
Repayment of bank loans	(314,920)	(238,000)
Payment of repurchase of shares	–	(4,628)
Net cash from financing activities	14,866	9,373
Net decrease in cash and cash equivalents	(99,983)	(36,668)
Cash and cash equivalents at January 1	2,554,938	2,477,308
Effect on foreign exchange rate changes	1,455	(906)
Cash and cash equivalents at June 30	2,456,410	2,439,734
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	2,456,410	2,439,734

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended June 30, 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2016.

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 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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, 2017

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 revenue from the sales of the products. They are managed separately because each product requires different production and marketing strategies.

Revenue 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, 2017

3. SEGMENT INFORMATION (CONTINUED)

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

	Revenue Six months ended June 30,		Results Six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Health and nutritional supplements	263,378	418,454	180,524	323,241
Health drinks	63,957	107,453	22,817	42,248
Pharmaceutical products	119,601	123,259	45,435	52,938
	446,936	649,166	248,776	418,427
Advertising and promotional expenses			(98,470)	(123,644)
Other operating expenses			(137,473)	(183,971)
Miscellaneous income			12,313	2,243
Interest income			21,418	20,483
Interest expenses			(23,363)	(12,991)
Profit before taxation			23,201	120,547

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 resources 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, 2017

3. SEGMENT INFORMATION (CONTINUED)

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Assets		
Segment assets		
— health and nutritional supplements	2,342,205	2,471,336
— health drinks	597,395	569,028
— pharmaceutical products	1,123,480	1,103,887
	4,063,080	4,144,251
Unallocated corporate assets (note a)	2,656,410	2,554,938
Consolidated total assets	6,719,490	6,699,189
Liabilities		
Segment liabilities		
— health and nutritional supplements	94,028	128,789
— health drinks	26,258	9,973
— pharmaceutical products	62,610	60,694
	182,896	199,456
Taxation	7,792	15,152
Deferred tax liabilities	72,411	75,040
Unallocated corporate liabilities (note b)	810,222	772,041
Consolidated total liabilities	1,073,321	1,061,689

Notes:

- (a) Unallocated corporate assets represent bank balances and cash and deposit paid for acquisition of a subsidiary.
- (b) Unallocated corporate liabilities represent short-term bank loans.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

4. PROFIT BEFORE TAXATION

	Six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets included in		
— costs of goods sold	19,129	16,194
— administrative expenses	5,139	5,006
	24,268	21,200
Advertising and promotional expenses	98,470	123,644
Depreciation of property, plant and equipment	94,024	78,008
Operating lease rentals in respect of land use rights	2,344	2,494

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

5. TAXATION

	Six months ended June 30,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
The charge comprises:		
Current tax:		
PRC Enterprise Income Tax	19,782	48,150
PRC withholding tax	—	1,614
Deferred taxation	(2,628)	(3,251)
	17,154	46,513

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,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Dividends		
— 2015 final dividend of HK4.2 cents per share paid	—	56,278

The Board does not recommend the payment of interim dividend for the six months ended June 30, 2017 (June 30, 2016: nil)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

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 RMB6,857,000 (2016: RMB67,921,000) and on the weighted average number of shares in issue of 1,591,978,666 (2016: 1,593,677,020).

The computation of diluted earnings per share for the six months ended June 30, 2017 did not assume the exercise of the Company's share options. This is because the exercise price of those options were higher than the average market price of the shares for respective periods.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred cost of RMB2,659,000 (2016: RMB3,682,000) on the acquisition of machinery and equipment and cost of RMB4,200,000 (2016: RMB107,961,000) on construction in progress for the expansion of production facilities.

9. INVENTORIES

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Raw materials	30,755	40,356
Work in progress	9,356	7,308
Finished goods	43,721	36,748
Merchandise for resale	3,993	3,762
Packaging materials	10,389	11,801
	98,214	99,975

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

10. TRADE AND OTHER RECEIVABLES

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Trade receivables	661,936	619,765
Bills receivables	1,099	1,981
	663,035	621,746
Deposits paid to suppliers (note a)	67,617	71,118
Property rental deposits	21,220	23,357
Prepayments for media airtime	1,950	1,950
Other receivables, prepayments and deposits	27,459	24,196
	781,281	742,367

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

Payment terms with customers are mainly on credit. Invoices are normally payable within 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, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Age		
0-90 days	233,898	184,544
91-180 days	140,352	145,432
181-365 days	166,739	245,811
Over 1 year	122,046	45,959
	663,035	621,746

Note:

- (a) Included in the deposits paid to suppliers, RMB603,000 (December 31, 2016: RMB13,665,000) are amounts due from a related party 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, 2017

11. TRADE AND OTHER PAYABLES

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Trade payables	54,690	42,091
Other tax payables	28,384	28,775
Customers' deposits	25,226	39,952
Advertising accruals	31,369	40,425
Other payables	7,430	13,343
Payroll and welfare payables	15,465	14,468
Construction payables	15,991	17,583
Other accruals	4,341	2,819
	182,896	199,456

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, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Age		
0-90 days	20,898	26,004
91-180 days	18,043	2,384
181-365 days	5,119	7,111
Over 1 year	10,630	6,592
	54,690	42,091

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

12. SHORT-TERM BANK LOANS

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
Short-term bank loans		
— secured	327,303	294,121
— unsecured	482,919	477,920
	810,222	772,041
The Group's bank loans carry interest at		
— variable rate	94,000	94,000
— fixed rate	716,222	678,041
	810,222	772,041

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, 2017, the Group has variable rate bank loans carrying interest at 4.4% to 4.9% (December 31, 2016: 4.1% to 4.9%) per annum and fixed rate bank loans carrying interest at 4.6% to 12.0% (December 31, 2016: 4.4% to 12.0%) per annum.

As at June 30, 2017, the secured bank loans are secured by the Group's land use right and property, plant and equipment with an aggregate carrying value of approximately RMB336,611,000 (December 31, 2016: RMB350,821,000) and 100% of the registered capital of 無錫瑞年醫藥有限公司 and 安徽省雙科藥業有限公司, indirect subsidiaries of the Company established in the PRC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

12. SHORT-TERM BANK LOANS (CONTINUED)

As at June 30, 2017, the following bank loans are guaranteed by:

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 RMB'000 (audited)
A related company (note)	25,000	25,000
Employees of the Group	9,000	6,000
Mr. Wang Fucai	99,303	94,122
	133,303	125,122

Note: A related company is controlled by Mr. Wang Futing, elder brother of Mr. Wang Fucai.

As at June 30, 2017, the Group has unutilised available credit facilities amounting to RMB10,000,000 (December 31, 2016: RMB10,000,000).

All the Group's borrowings and bank loans are repayable on demand or within a period not exceeding one year. All the short-term bank loans are denominated in RMB.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

13. 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 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. Pursuant to an ordinary resolution by the shareholders of the Company on June 2, 2016, the scheme mandate was refreshed such that the maximum number of shares in respect of which options may be granted under the Share Option Scheme is 159,197,866 Shares, which was equivalent to 10% of the total number of Shares in issue as at June 2, 2016, being the date of passing of the said ordinary resolution for refreshing the scheme mandate. 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.

On May 2, 2017, a total of 111,300,000 share options were granted to 7 qualified participants (the "Grantee"), at an exercise price of HK\$0.55 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 May 1, 2019 (both days inclusive). All the offers of grant of share options have been accepted by the grantees and all such share options were 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 May 2, 2017, the date of grant, was HK\$0.43.

The fair value of the options determined at the grant date using the Binomial Option Pricing Model and recognised immediately in profit or loss was HK\$1,302,000 (equivalent to RMB1,130,000).

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

	May 2, 2017
Grant date share price	HK\$0.43
Exercise price	HK\$0.55
Expected life	2 years
Expected volatility	56%
Dividend yield	nil
Risk-free interest rate	0.778%

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

13. SHARE OPTIONS SCHEME (CONTINUED)

2010 Share Option Scheme (continued)

In accordance with the terms of the 2010 Share Option Scheme, options vested at the date of grant. The Binomial Option Pricing 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.

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

Types of participants	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options			
				Outstanding as at January 1, 2017	Granted during the period	Exercised during the period	Outstanding as at June 30, 2017
Others [*]	May 2, 2017	May 2, 2017 — May 1, 2019	0.55	–	111,300,000	–	111,300,000

^{*} The Company's share options granted to other participants are measured by reference to the fair value of options granted since the fair value of the services provided by such other participants to the Group cannot be estimated accurately.

No share option had lapsed or been cancelled during the period.

None of the grantees of share option granted during period is a Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined in the Listing Rules). These grantees are consultants and they are not full-time employees of the Group. None of the Directors, chief executive or substantial shareholder(s) of the Company, or any of their respective associates (as defined in the Listing Rules) held any outstanding share options during the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

14. CAPITAL COMMITMENTS

	At June 30, 2017 RMB'000 (unaudited)	At December 31, 2016 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	82,845	84,529
— technical knowhow	29,830	31,000
	112,675	115,529

15. RELATED PARTY TRANSACTION

Detail of the balance with a related party is set out in note 10.

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

Related party	Relationship	Nature of transaction	Six months ended June 30,	
			2017 RMB'000	2016 RMB'000
Jiangsu Ruinian Qianjin Pharmaceutical Company Limited ("Jiangsu Ruinian")	(Note)	Trade purchases	8,352	7,473

In the opinion of the directors, the above transaction was undertaken in the ordinary course of business on terms mutually agreed between the Group and the related party. The related party transaction mentioned above in relation to trade purchases constitutes continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Note: Jiangsu Ruinian is owned as to approximately 6.45% by Mr. Wang Fucai, an executive Director and a substantial shareholder of the Company, and the remaining approximately 93.55% is held by Mr. Wang Futing, elder brother of Mr. Wang Fucai.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2017

15. RELATED PARTY TRANSACTION (CONTINUED)

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,	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Salaries and other benefits	3,499	3,533
Retirement benefits scheme contributions	44	45
	3,543	3,578

16. EVENTS AFTER THE END OF THE REPORTING PERIOD

On April 19, 2017, Ray Sail Investments Limited (the "Purchaser"), an indirectly wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Agreement") and agreed to acquire the entire equity interest in Major Express Group Limited ("Major Express") at an aggregate consideration of RMB1,550 million, subject to adjustment. The consideration shall be settled in cash, and the payment of RMB200 million was paid as deposits for the acquisition of Major Express during the period. The remaining balance will be paid upon the completion of the acquisition of Major Express. At the date of this report, the acquisition of Major Express has not yet completed. The detail of the acquisition of Major Express was disclosed in the Company's announcement dated April 19, 2017.

Major Express is an investment company which owns the entire issued share capital of Shenzhen Ailire Investment Consulting Limited. The core business of its active subsidiaries are sale and distribution of pharmaceutical and healthcare products and the operation of point of sale in the PRC. This downstream expansion into the sale and distribution of pharmaceutical and health supplement products and geographical expansion of distribution network will broaden the business horizon of the Company. Further details of the acquisition target are set out in the paragraphs headed "Financial Reviews — Prospects" below.

Management Discussion and Analysis

BUSINESS REVIEW

The Group's revenue decreased by 31.2% year on year to RMB446.9 million for the first six months ended June 30, 2017 due to the slowdown in China's economy and consumer market. Profit attributable to owners of the Company decreased by 89.9% year on year to RMB6.9 million compared with that in the first half of 2016. The overall gross profit margin continued to stand at healthy level but decreased to 55.7% from the 64.5% in the first half of 2016 due to higher production costs and the change in sales mix in the first half of 2017. Profit attributable to owners of the Company decreased by RMB61.1 million mainly because gross profit decreased by RMB169.7 million.

During the period, the Group's major business recorded a decrease in sales compared with that in the first half of 2016. Sales of the Group's core health and nutritional supplement products decreased by 37.1% year on year to RMB263.4 million as the sales of the amino acid tablets and liquid product decreased considerably for the six months ended June 30, 2017. Meanwhile, sales of health drinks decreased by 40.5% year on year to RMB64.0 million. Sales of pharmaceutical products decreased slightly by 3.0% year on year to RMB119.6 million.

During the period, the Group adopted a prudent approach to the development of its sales network. In addition to continuously consolidating its footholds in its major markets in eastern and southern China, the Group also enhanced its cooperation with distributors in tapping the potential of the new sales network. During the period, newly developed retail outlets included Hong Fu Tang Pharmaceutical Store Chain in Zhejiang Province, Baojixin Pharmaceutical Store Chain and JL Pharmacy Store Chain in Taizhou City. Meanwhile, the Group also actively developed new sales channels for health drinks, namely convenience stores, supermarkets and retail stores at petrol stations. New sales channels for pharmaceutical products included those at Aier Eye Hospitals in Suizhou of Hubei Province, Xinhua and Zhangjiajie of Hunan Province, Dalian of Liaoning Province and Yancheng of Jiangsu Province, as well as those at the People's Hospitals in Anyue, Pingshan and Yibin of Sichuan Province.

The Group put a strong emphasis on the development of Real Nutri Health Club member services and provided members with quality health services. During the period, the Group established Real Nutri Club Member Operation Center and Real Nutri Health Association in Suzhou to integrate its well-established brand name and products for the reform and innovations in the healthcare industry frontiers. The Group also continued to provide diverse and designated health services for members in order to further penetrate the local markets. During the period, the Group reorganized the strategic layout for Real Nutri Health Stores' network. As at June 30, 2017, the number of Real Nutri Health Stores was readjusted to around 150 and these stores together contributed revenue of about RMB28.1 million, which accounted for 6.3% of the Group's total revenue. The Group regularly held various kinds of activities for its health club members, including health seminars jointly organized with famous healthcare experts, so as to reach the products' target customers and thus expand the Group's brand influence in the amino acids healthcare domain.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

The Group actively developed its online-to-offline (“O2O”) business to capitalize on the rapid growth of online sales of health supplements. The Group enhanced its cooperation with e-commerce platforms to expand its online sales network and promote its products and the online sales performance. The Group’s online direct sales business generated revenue of RMB7.9 million, which accounted for 1.8% of the total revenue during the period. Besides, the Group also tapped the rapid growth in consumption demand at WeChat Mall and mobile internet platforms. To drive online sales, it speeded up the development of its WeChat Mall and reinforced the online training of its WeChat Mall distributors on products knowledge and practical marketing skills.

For brand promotion, the Group formulated marketing plans according to latest market trend to target specific market segments and customers so as to maintain its products’ competitiveness. The Group strengthened both its marketing efforts in social media and online and offline platforms. Strategic publicity, sales and promotion activities were conducted to target various specific markets for respective products. These initiatives aimed for a comprehensive enhancement of products and brand recognition by the market. During the period, the Group actively participated in all kinds of large health exhibitions, including The 17th Elderly Regimen & Healthcare Industry Forum & Expo in Nanjing City, The 77th PharmChina Trade Fair & Natural Health and Nutrition Expo in Shanghai, and also joined The 22nd China Beauty Expo in 2017 in Shanghai to exhibit the Group’s new series of “Real Nutri Beauty 18” beauty health products.

As the leading amino acids health supplements enterprise, Real Nutri is committed to universal health education and promotion of amino acids so as to allow more people to learn more about and physically benefit from amino acids. During the period, the Group actively participated in various science popularization events. The Group jointly hosted — The Mashan Road 17th Science Popularization Week & 2017 National Fitness Ceremony under the theme of “Technology Superpower, Realizing Through Innovations” in Mashan District of Wuxi City. Apart from the universal science education, the Group also promoted the health knowledge and regimen concepts of amino acids through active interaction with the people for the further reinforcement of its corporate image. Besides, the Group actively conducted universal youth science education with schools and training institutes in Jiangsu Province, Zhejiang Province and Shanghai through its “Real Nutri Amino Acids Science Exhibition Hall” which was visited by around 30,000 children, teenagers and university students during the period. In March 2017, the exhibition hall was accredited by the Binhu District Association for Science and Technology of Wuxi as “The Outstanding Base for Universal Science Education in 2016”.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

The Group's health drink business carried out extensive, targeted brand building campaigns through sponsorships for major sports events. For instance, it sponsored the Launch Ceremony of "Spring Cycling 2017 — Shenzhen" and "Yuanshan Zhangding Everesting Mountain Biking Contest" in Shenzhen City with the Group's functional amino acid drink U-Energy. The Group continued to leverage its privileged position as a sponsor of the China National Golf Team to conduct marketing campaigns for U-Energy in the golf courses of major cities. This move allowed the Group to build a distinctive brand image in the progressive development of mid to high-end consumer markets.

The Group's medicine business held various regular promotional seminars and took part in a number of major medical conferences specifically for its medicine products. Such events included The 23rd Annual Meeting of Chinese Society of Dermatology in Chongqing City, 2017 Xiaoxiang International Ophthalmology Forum in Changsha City. Besides, the Group organized Real Nutri Medicine Business Sales Conference in Wuxi City to carry out academic exchanges and products evaluation studies with medical experts from all over the country. These efforts aimed at enhancing the medical community understanding of the unique characteristics of the Group's medicine products.

The Group has been allocating resources to product development and has innovated a diverse portfolio of extensive products in order to increase its brand's competitiveness. During the period, the Group launched a number of high-quality new nutritional supplement products, including Rose Hydrosol Drink, Multi-Grains Fiber Drink Mix, γ -Aminobutyric Acid & Phosphatidylserine Complex. During the period under review, the Group launched several China Food and Drug Administration approved new over-the-counter (OTC) medicine products, including Vitamin E Soft Gel Capsules, Rheumatism Medical Wine, Longan Ganoderma Lucidum Nutrition Wine. Meanwhile, the Group placed utmost emphasis on product quality as its endeavour to provide the public with highest quality health supplements. Owing to the high product quality and the good brand reputation, Real Nutri was once again rated as the Jiangsu Famous Trademark by Jiangsu Administration for Industry and Commerce, and the Group was accredited as Health Supplements Manufacturing Enterprise of Grade-A Credibility on Product Quality and Safety by Wuxi Food and Drug Administration. Besides, the Group continued to upgrade the facilities and equipment at various production bases. During the period, the Group's capital expenditures totaled approximately RMB2.3 million. The state of the art aluminum can production line designed by Mitsubishi Heavy Industries Group of Japan is expected to launch production in 2017 after it was first introduced to the health drinks production base last year. From now on, the Group is capable to produce functional amino acids drink U-Energy in-house in China.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

Corporate Social Responsibility

Besides developing its business, the Group always cares about and contributes to the society, and has been participating in various charitable activities. During the period, the Group donated its nutritional supplements to the lantern riddles activity at Fengying Elderly Home in Wuxi City. In addition, the Group's staffs were amongst the 1,000 participants for The Gratitude and Preservation for the Taihu Mother Lake charity walk hosted by the Wuxi Taihu Resort District Board. The Group also participated in the Skip Lunch Day and Green Day organized by The Community Chest of Hong Kong.

FINANCIAL REVIEW

For the six months ended June 30, 2017, the revenue of the Group was RMB446.9 million, representing a decrease of approximately 31.2% over the same period last year. Profit attributable to owners of the Company for the period has decreased to RMB6.9 million by approximately 89.9% over the same period last year. The Company's basic earnings per share decreased to RMB0.4 cents per share by approximately 90.7% over the same period last year.

Liquidity and capital resources

As at June 30, 2017, the Group had current assets of RMB3,335.9 million (December 31, 2016: RMB3,397.3 million) and current liabilities of RMB1,000.9 million (December 31, 2016: RMB986.6 million). The current ratio was 3.3 as at June 30, 2017 (December 31, 2016: 3.4). As at June 30, 2017, the Group had bank balances and cash of approximately RMB2,456.4 million (December 31, 2016: RMB2,554.9 million). All the Group's bank borrowings were denominated in RMB and were short-term bank loans. Details of the Group's bank borrowings are set out in Note 12 to the condensed consolidated financial statements for the period ended June 30, 2017 contained in this report.

As at June 30, 2017, the Group had bank loans in the amount of RMB810.2 million (December 31, 2016: RMB772.0 million) and a gearing ratio of 14.4% (December 31, 2016: 13.7%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets. As at June 30, 2017, the Group had pledged the Group's land use rights and buildings under property, plant and equipment with an aggregate carrying value of approximately RMB336.6 million for the bank borrowing (December 31, 2016: RMB350.8 million).

Capital commitments and contingent liabilities

As at June 30, 2017, the Group's capital commitments were approximately RMB112.7 million (December 31, 2016: RMB115.5 million), all of which were related to property, plant and equipment and technical knowhow. The Group had no material contingent liabilities as at June 30, 2017 (December 31, 2016: nil).

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

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.

Events after the end of the Period

On April 19, 2017, Ray Sail Investments Limited (the "Purchaser"), an indirectly wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Agreement") and agreed to acquire the entire equity interest in Major Express Group Limited ("Major Express") at an aggregate consideration of RMB1,550.0 million, subject to adjustment. The consideration shall be settled in cash, and the payment of RMB200.0 million was paid as deposits for the acquisition of Major Express during the period. The remaining balance will be paid upon the completion of the acquisition of Major Express. At the date of this report, the acquisition of Major Express has not yet completed. The detail of the acquisition of Major Express was disclosed in the Company's announcement dated April 19, 2017.

Major Express is an investment company which owns the entire issued share capital of Shenzhen Ailire Investment Consulting Limited. The core business of its active subsidiaries are sale and distribution of pharmaceutical and healthcare products and the operation of point of sale in the PRC. This downstream expansion into the sale and distribution of pharmaceutical and health supplement products and geographical expansion of distribution network will broaden the business horizon of the Company. Further details of the acquisition target are set out in the paragraphs headed "Prospects" below.

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 over-allotment shares amounted to approximately HK\$806.6 million (approximately RMB689.4 million), the total net proceeds from placing in October 2010 amounted to approximately HK\$597.2 million (approximately RMB510.4 million), the total net proceeds from placing in April 2015 amounted to approximately HK\$303.5 million (approximately RMB259.4 million), the total net proceeds from placing in June 2015 amounted to approximately HK\$367.0 million (approximately RMB313.7 million) and the total net proceeds from the placing and top-up subscription in July 2015 amounted to approximately HK\$116.5 million (approximately RMB99.6 million). As at June 30, 2017, an accumulated amount of approximately RMB1,098.3 million from the net proceeds has been applied on market expansion, capital expenditures, product development and other working capital, and the remaining amount of approximately RMB774.2 million has been deposited into banks and qualified financial institution, will be applied in accordance with the proposed application as set out in the "Use of proceeds" section in the Prospectus, the announcements of the Company dated October 28, 2010, April 12, 2015, June 4, 2015, July 22, 2015 and August 22, 2016. ^(Note 1)

Note 1: In the above paragraph, for the purpose of illustration only, amounts quoted in HK\$ have been converted into RMB at the rate of HK\$1.00 to RMB0.8547. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

Management Discussion and Analysis

PROSPECTS

As the aging of China's population accelerates and consumers' health awareness rises, the nation's demand for quality health supplements and health services will grow consistently. Development of healthcare industry is amongst the country's top agenda and regulatory measures for the healthcare industry have been tightening up in recent years. Meanwhile, the government has also adopted policies that promote the healthy healthcare industrial development and consolidation in the long run. As the leading amino acids health supplements enterprise, the Group will cope with state policies and the industrial development in order to capture the opportunities for assertive expansions of the enterprise business frontiers.

The Group will continue to perfect its sales channel management through enhancing the training of its sales management team and consolidating its sales network. The Group will formulate more appropriate marketing measures and management plans according to the regional market conditions of different levels to improve the Group's sales performance and operational efficiency in these markets at different levels. The Group will continue to improve the network and scale of Real Nutri Health Stores so as to increase local market penetration and reduce the store operating costs. Meanwhile, the Group will actively develop the Real Nutri Health Club members' services and sales activities. With diversified membership activities to facilitate more direct interactions with members, the Group will provide the members with professional health services, including free body checks, health indicators' records, health experts' consultations and advices on personalized total solutions for health supplement products and services. The Group is developing its customers Big Data system to strengthen its customer relationship management and lay a strong foundation for future online-to-offline (O2O) business and membership sales model.

Management Discussion and Analysis

PROSPECTS (CONTINUED)

The robust growth of digital media and e-commerce has made certain changes to consumer purchasing behavior on health supplements. To respond to the challenges and the opportunities that come along with the changing markets, the Group is gradually adjusting its business model to further develop its O2O business. It has been continuously expanding its online sales channels, strengthening its cooperation with key e-commerce platforms, and optimizing customer services system. The Group will launch more exclusive new products and offer special discounts targeting at consumers' specific preferences. These measures aim to boost online sales and enhance consumers' purchasing experience. The Group will formulate diverse yet precise marketing strategies according to the competitive landscapes of different products. Specifically, the Group will step up the marketing campaign for U-Energy in the second half of the year. It will conduct promotional materials targeting the consumer group of U-Energy with a series of eye-catching advertising designs through new media platforms such as Weibo's "Big Vs" (popular key opinion leaders and micro-bloggers on Weibo), internet celebrities and video streaming websites. These initiatives can increase brand awareness and thus simulate the sales. Moreover, while the Group will continue to enhance the promotional efforts on new media and its Real Nutri and U-Energy official websites on WeChat and Weibo, it will also cooperate with famous internet companies and web services companies such as Tencent, Sohu, Baidu and Toudao.com by promoting the Group's products through online advertorials. The Group will strengthen the communication with consumers through its public healthcare and universal science education programmes. All these measures can increase its brand's online media penetration and allow the diversions of interested fans of such platforms to Real Nutri WeChat Mall for facilitating online products sales.

Management Discussion and Analysis

PROSPECTS (CONTINUED)

The Group will actively master the competitive advantage of its products and market opportunities to develop its healthcare business. The Group will accelerate the development of novel products and source high quality health supplements. In addition to launching new amino acids-based health supplements, the Group will also launch more popular and diverse health foods to meet the common consumer preferences and enrich its products portfolio. The Group plans to launch a number of new health products in the second half of 2017, including Cranberry Probiotics Powder with FOS, RN Spirulina Amino Acid Capsules, Acerola Cherry Tablets, Chinese Yam, Black Bean & Walnut Mixed Powder.

In recent years, the Group has been proactively inventing new business ideas and expanding new markets. It also seeks the opportunities in investing in or acquiring quality assets to expand its businesses scale. The Group entered into an agreement with an independent third party to acquire the entire issued share capital of Major Express which owns the entire issued share capital of Shenzhen Ailire Investment Consulting Limited (“Ailire”, and together with its subsidiaries, the “Target Group”) on April 19, 2017. The Group expects that the acquisition can result in synergies between the Group and the Target Group. Ailire will allow the Group to further expand downstream into the direct sales and distribution of pharmaceuticals and health supplement products in southern and central China through the 500 retail outlets operated by the Target Group. In the meantime, the acquisition will quickly increase Real Nutri’s brand awareness and improve the Group’s growth potential in the long term. After the acquisition, the Group will actively boost the sales of high margin health supplements for additional income through the Target’s pharmacy chain stores. If the acquisition is completed, the Target Group’s stores, together with more than 150 Real Nutri Health Stores of the Group, will bring the number of retail outlets operated by the Group to over 650. Such expansion will bring in a wider membership base and logistic network supports for the future development of the Group’s online and offline sales and services for its pharmaceuticals and health supplements. The expanded network can also effectively elevate the Group’s products sales and customers services efficiencies. The Target Group will establish a cross selling network with the Group’s conventional offline sales channels and internet-enabled direct sales. The completion of the acquisition is conditional upon, among other things, the approval by the Company’s shareholders at an extraordinary general meeting (“EGM”). The Group is currently coordinating with the Target Group to complete the required audit and legal works so as to prepare the circular to provide its shareholders with further information about this transaction as early as practicable.

Management Discussion and Analysis

PROSPECTS (CONTINUED)

Although China economy enters into an adjustment phase with various challenges rooting from complicated and evolving political and economic factors, the Group will overcome various hurdles with its intrinsic flexibility and resilience and drive the development of its different business units. Going forward, the Group will not only continue to consolidate its leading position in amino acid health supplements market, and will also fully blend its inherent competitive advantages with the new growth opportunities in China's healthcare industry. The Group will build a prospectus future on its past successes and generate more ample returns to shareholders.

HUMAN RESOURCES

As at June 30, 2017, the Group had a work force of 896 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 remunerates its employees through salaries, discretionary bonuses subject to review of individual performance, retirement benefits scheme contributions and share option scheme. 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 does not recommend payment of interim dividend for the six months ended June 30, 2017 (2016: Nil) to the shareholders.

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

As at June 30, 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any associated corporation (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	Approximate shareholding percentage (%) ⁽³⁾
Mr. Wang Fucai ⁽²⁾	interest of a controlled corporation	290,968,394 Shares (L)	18.28%
Dr. Wong Lung Tak Patrick, BBS, J.P.	beneficial owner	1,070,000 Shares (L)	0.07%

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) The 290,968,394 Shares were directly held by Furui Investments Limited ("Furui"), a company wholly owned by Mr. Wang Fucai. Accordingly, by virtue of Part XV of the SFO, Mr. Wang Fucai is deemed to be interested in the 290,968,394 Shares registered in the name of Furui.
- (3) The shareholding percentages were calculated based on the total number of Shares of 1,591,978,666 in issue as at June 30, 2017.

Save as disclosed herein, as at June 30, 2017, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation as 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.

Other Information

SHARE OPTIONS

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

On May 2, 2017, 111,300,000 share options have been granted under the 2010 Share Option Scheme at an exercise price of HK\$0.55 per share option. As at June 30, 2017, there are 111,300,000 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 as at January 1, 2017	Granted during the period	Exercised during the period	Number of options outstanding as at June 30, 2017
Others (Note)	–	111,300,000	–	111,300,000

Note:

The Company’s share options granted to other participants are measured by reference to the fair value of options granted since the fair value of the services provided by such other participants to the Group cannot be estimated accurately.

No share option had lapsed or been cancelled during the period.

None of the grantees of share option granted during period is a Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined in the Listing Rules). These grantees are consultants and they are not full-time employees of the Group. None of the Directors, chief executive or substantial shareholder(s) of the Company, or any of their respective associates (as defined in the Listing Rules) held any outstanding share options during the period.

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 Associated Corporation”, and “Share Options”, at no time during the period ended June 30, 2017 was the Company, its holding company or any of its 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 IN SHARES AND UNDERLYING SHARES

As at June 30, 2017, interests or short positions of persons, other than a Director or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO and persons who are substantial shareholders of the Company within the meaning of the Listing Rules are as follows:

Shareholders	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding ⁽²⁾
Furui	beneficial owner	290,968,394	18.28%
Qin Shifeng ⁽¹⁾	interest of spouse	290,968,394	18.28%

Notes:

- (1) Furui is the beneficial owner of such 290,968,394 Shares. Furui is wholly owned by Mr. Wang Fucai. Therefore, by virtue of the SFO, Mr. Wang Fucai is deemed to be interested in all such Shares registered in Furui. Qin Shifeng (秦士豐) is the spouse of Mr. Wang Fucai. Therefore Qin Shifeng (秦士豐) is deemed to be interested in all such Shares in which Mr. Wang Fucai is deemed to be interested in.

Save as disclosed above, as at June 30, 2017, the Company had not been notified by any other person (other than Directors or chief executive of the Company) who had Interests or short positions in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of 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

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, 2017 and this interim report. The Company's external auditor, Elite Partners CPA Limited, has conducted a review of the interim financial information of the Group for the six months ended June 30, 2017 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

There was no purchase, sale or redemption of the Company's securities by the Company nor any of its subsidiaries for the six months ended June 30, 2017.

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 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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, 2017.

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 June 30, 2017, 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 healthcare 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, 2017.

On behalf of the Board

Wang Fucai

Chairman

Hong Kong, August 30, 2017