

RM Group Holdings Limited
御藥堂集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8185



2014/2015
Third Quarterly Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of RM Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2014

The board of Directors (the “Board”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 31 December 2014 together with the unaudited comparative figures for the corresponding periods in 2013 as follows:

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
TURNOVER	3	58,180	56,244	157,693	130,421
Cost of sales		(12,750)	(11,885)	(34,407)	(29,466)
GROSS PROFIT		45,430	44,359	123,286	100,955
Other revenue and other net income		104	180	360	2,336
Selling and distribution expenses		(16,251)	(16,662)	(43,856)	(38,429)
Administrative expenses		(21,457)	(23,110)	(59,314)	(49,470)
Research and development expenses		(751)	(1,039)	(2,289)	(1,409)
Listing expenses		–	(11,118)	–	(15,370)
PROFIT/(LOSS) FROM OPERATIONS		7,075	(7,390)	18,187	(1,387)
Finance costs	4(c)	(122)	(34)	(210)	(83)
PROFIT/(LOSS) BEFORE TAXATION	4	6,953	(7,424)	17,977	(1,470)
Taxation	5	(1,682)	(2,151)	(3,851)	(3,901)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		5,271	(9,575)	14,126	(5,371)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD					
Items that may be reclassified to profit or loss:					
Exchange differences arising on translation of foreign operations		9	(76)	(34)	(85)
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		5,280	(9,651)	14,092	(5,456)
EARNINGS/(LOSS) PER SHARE					
BASIC (HK CENTS PER SHARE)	7	1.02	(1.91)	2.74	(1.27)
DILUTED (HK CENTS PER SHARE)	7	1.02	(1.91)	2.74	(1.27)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2014

	Attributable to owners of the Company						
	Share capital	Share premium	Merger reserve	Translation reserve	Share option reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 April 2014 (audited)	5,150	122,936	(10)	(127)	7,364	32,818	168,131
Profit for the period	-	-	-	-	-	14,126	14,126
Other comprehensive loss:							
Exchange differences arising on translation of foreign operations	-	-	-	(34)	-	-	(34)
Total comprehensive income for the period	-	-	-	(34)	-	14,126	14,092
Equity-settled share-based payments	-	-	-	-	1,075	-	1,075
Share options lapsed	-	-	-	-	(139)	139	-
Dividends recognised as distribution	-	-	-	-	-	(20,600)	(20,600)
At 31 December 2014 (unaudited)	5,150	122,936	(10)	(161)	8,300	26,483	162,698
At 1 April 2013 (audited)	-	-	-	-	-	38,551	38,551
Loss for the period	-	-	-	-	-	(5,371)	(5,371)
Other comprehensive loss:							
Exchange differences arising on translation of foreign operation	-	-	-	(85)	-	-	(85)
Total comprehensive loss for the period	-	-	-	(85)	-	(5,371)	(5,456)
Issue of ordinary shares pursuant to the							
Reorganisation	10	-	(10)	-	-	-	-
Issuance of new shares by way of placing	1,296	137,376	-	-	-	-	138,672
Share issue expenses	-	(10,596)	-	-	-	-	(10,596)
Capitalisation issue	3,844	(3,844)	-	-	-	-	-
Equity-settled share-based payments	-	-	-	-	7,364	-	7,364
At 31 December 2013 (unaudited)	5,150	122,936	(10)	(85)	7,364	33,180	168,535

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the nine months ended 31 December 2014

1. CORPORATE INFORMATION AND REORGANISATION

(a) Corporate Information

RM Group Holdings Limited (the “Company”) was incorporated and domiciled in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 5 December 2011. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company has established a principle place of business in Hong Kong at 21/F., Man Shing Industrial Building, 307–311 Castle Peak Road, Kwai Chung, Hong Kong and has been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on 5 April 2012. The Company’s shares were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 11 October 2013.

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

The unaudited condensed consolidated financial information is presented in Hong Kong dollars (“HK\$”), unless otherwise stated.

The unaudited condensed consolidated financial information for the nine months ended 31 December 2014 has not been audited by the Company’s auditors but has been reviewed by the audit committee of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

1. CORPORATE INFORMATION AND REORGANISATION (CONTINUED)

(b) Reorganisation

Pursuant to a reorganisation (the “Reorganisation”) of the Company and its subsidiaries now comprising the Group completed on 23 September 2013 to rationalise the Group’s structure in preparation for the listing of the shares of the Company on the GEM of the Stock Exchange, the Company became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 30 September 2013 (the “Prospectus”).

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial information have been prepared in accordance with the basis of presentation which comply with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) and by the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Company. There have been no significant changes to the accounting policies applied in these financial information for the periods presented as a result of these developments.

The unaudited condensed consolidated financial information have been prepared under the historical cost convention.

The preparation of financial information in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgments in the process of applying the Group’s accounting policies.

The accounting policies adopted in preparing the unaudited condensed consolidated financial information were consistent with those applied for the financial statements of the Group for the year ended 31 March 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

3. TURNOVER

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

Turnover represents the invoiced value of sales of health and beauty supplements and products, less sales returns and discounts for the period. An analysis of turnover is as follows:

	For the three months ended 31 December		For the nine months ended 31 December	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Health supplements	52,016	47,764	132,915	99,416
Beauty supplements and products	5,906	8,231	24,065	30,366
Others	258	249	713	639
	58,180	56,244	157,693	130,421

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

4. PROFIT/(LOSS) BEFORE TAXATION

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

	For the three months ended 31 December		For the nine months ended 31 December	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
(a) Staff costs:				
Salaries, allowances, and other benefits (including directors' remuneration)	14,251	11,471	41,642	32,162
Equity-settled share-based payments	-	7,364	-	7,364
Mandatory provident fund contribution	513	389	1,458	1,135
	14,764	19,224	43,100	40,661
(b) Other items:				
Auditors' remuneration	175	200	695	388
Cost of inventories	12,750	11,885	34,407	29,466
Depreciation on property, plant and equipment	569	427	1,566	1,255
Amortization of intangible assets	29	29	86	29
Provision for goods returns	408	504	951	865
Exchange loss/(gain), net	4	96	(33)	153
Operating lease charges	460	133	884	309
Net gain on disposal of subsidiaries	-	-	-	(2,118)
Net loss on disposal of property, plant and equipment	-	47	3	47
Research and development expenses	751	1,039	2,289	1,409
Equity-settled share-based payment — consultant	-	-	1,075	-
(c) Finance costs:				
Bank overdraft interest	104	12	153	13
Finance charge on obligations under finance lease	-	-	-	1
Interest on bank loans wholly repayable within five years	7	9	22	28
Interest on bank loans not wholly repayable within five years	11	13	35	41
	122	34	210	83

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

5. TAXATION

	For the three months ended 31 December		For the nine months ended 31 December	
	2014	2013	2014	2013
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Current tax — Hong Kong Profits Tax				
Provision for the period	1,682	2,151	4,725	3,901
Overprovision in respect of prior years	–	–	(874)	–
	1,682	2,151	3,851	3,901

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the periods ended 31 December 2014 and 2013.

No provision for profits tax in the Cayman Islands, the British Virgin Islands (“BVI”) and Taiwan have been made as the Group has no income assessable for tax in these jurisdictions during the nine months ended 31 December 2014 and 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

5. TAXATION (CONTINUED)

Reconciliation between tax expenses and accounting profit/(loss) at the applicable tax rates:

	For the three months ended 31 December		For the nine months ended 31 December	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Profit/(loss) before taxation	6,953	(7,424)	17,977	(1,470)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits/(loss) in the tax jurisdictions concerned	1,145	(1,230)	2,955	(253)
Tax effect on non-taxable income	56	(106)	(40)	(456)
Tax effect on non-deductible expenses	(18)	3,206	403	4,059
Tax effect of tax losses not recognised	465	241	1,415	584
Others	34	40	(8)	(17)
Overprovision in respect of prior years	–	–	(874)	–
Utilisation of tax losses not previously recognised	–	–	–	(16)
Actual tax expense	1,682	2,151	3,851	3,901

6. DIVIDENDS

At a meeting held on 24 June 2014, the Board recommended the payment of a special dividend of HK\$0.04 per ordinary share of the Company (totaling HK\$20,600,000) for the year ended 31 March 2014 (“2014 Special Dividend”), which was then approved by the shareholders of the Company in the annual general meeting held on 4 August 2014. The dividend was paid and reflected as an appropriation of retained earnings during the nine months ended 31 December 2014.

The Board does not recommend any payment of dividend for the nine months ended 31 December 2014 (nine months ended 31 December 2013: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	For the three months ended 31 December		For the nine months ended 31 December	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Earnings/(loss)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) attributable to owners of the Company for the purposes of calculation of basic and diluted earnings/(loss) per share	5,271	(9,575)	14,126	(5,371)
Number of shares				
Weighted average number of ordinary shares in issue for the purpose of calculation of basic earnings/(loss) per share	515,000,000	500,913,043	515,000,000	424,044,364
Effect of dilutive potential ordinary shares: Share options	1,177,000	–	1,372,000	–
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings/(loss) per share	516,177,000	500,913,043	516,372,000	424,044,364
Basic earnings/(loss) per share (HK cents)	1.02	(1.91)	2.74	(1.27)
Diluted earnings/(loss) per share (HK cents)	1.02	(1.91)	2.74	(1.27)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

8. SEGMENT REPORTING

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

8. SEGMENT REPORTING (CONTINUED)

(a) Segment results

Information regarding the Group's reportable segments as provided to the Board for the purpose of resource allocation and assessment of segment performance for each of the nine months ended 31 December 2014 and 2013, are set out below:

	For the nine months ended 31 December 2014 (unaudited)							
	Proprietary brands		Private label brands		Trading of goods		Other items	Total
	Beauty		Beauty		Beauty			
	Health supplements	and products	Health supplements	and products	Health supplements	and products		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue from external customers	99,988	21,664	31,745	2,268	1,182	133	713	157,693
Cost of sales	(20,638)	(7,597)	(5,148)	(207)	(329)	(56)	(432)	(34,407)
Gross profit	79,350	14,067	26,597	2,061	853	77	281	123,286
Selling and distribution expenses	(32,760)	(5,825)	(4,422)	(387)	(144)	(4)	-	(43,542)
Administrative expenses	(5,514)	(234)	(9,341)	(460)	(492)	-	-	(16,041)
Segment results	41,076	8,008	12,834	1,214	217	73	281	63,703
Other revenue and other net income								360
Unallocated head office and corporate expenses								(45,876)
Finance costs								(210)
Profit before taxation								17,977

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

8. SEGMENT REPORTING (CONTINUED)

(a) Segment results (Continued)

	For the nine months ended 31 December 2013 (unaudited)						
	Proprietary brands			Private label brands		Other items	Total
	Health supplements	Beauty supplements and products	Health supplements	Beauty supplements and products	HK\$'000		
		HK\$'000		HK\$'000		HK\$'000	HK\$'000
Revenue from external customers	80,125	22,783	19,291	7,583	639	130,421	
Cost of sales	(16,712)	(7,589)	(2,898)	(1,963)	(304)	(29,466)	
Gross profit	63,413	15,194	16,393	5,620	335	100,955	
Selling and distribution expenses	(27,143)	(6,759)	(2,537)	(1,919)	-	(38,358)	
Administrative expenses	(4,654)	(359)	(5,839)	(661)	-	(11,513)	
Segment results	31,616	8,076	8,017	3,040	335	51,084	
Other revenue and other net income						2,336	
Unallocated head office and corporate expenses						(54,807)	
Finance costs						(83)	
Loss before taxation						(1,470)	

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

There is no significant inter-segment transfer or transaction.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

8. SEGMENT REPORTING (CONTINUED)

(a) Segment results (Continued)

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

	Amortization and depreciation For the nine months ended 31 December	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Proprietary brands		
Health supplements	329	243
Beauty supplements and products	53	58
Private label brands		
Health supplements	77	51
Beauty supplements and products	5	20
Trading of goods		
Health supplements	3	–
Beauty supplements and products	1	–
Unallocated	1,184	912
	1,652	1,284

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

8. SEGMENT REPORTING (CONTINUED)

(b) Geographical information

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

Revenue from external customers

	For the nine months ended 31 December	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Hong Kong	156,428	128,934
Taiwan	1,265	1,487
	157,693	130,421

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the nine months ended 31 December 2014

8. SEGMENT REPORTING (CONTINUED)

(c) Information about major customer(s)

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

	For the nine months ended 31 December	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Customer A (note (i))	108,726	89,568

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the business of formulation, marketing, sales and distribution of health supplements and beauty supplements and products mainly in Hong Kong and Taiwan. The Group's products are mainly sold under its proprietary brands and private label brands specifically developed for and owned by the Distribution Facilitator in Hong Kong and Macau. The Group outsources most of its production to its suppliers and subcontracting manufacturers and the Group distributes its products mainly through the Distribution Facilitator.

The Group opened its flagship Chinese Medicine Clinic in the Jordan district, Kowloon in October 2014 and currently operates three Chinese medicine clinics to provide traditional Chinese medicine treatments, services and retailing of health supplements to the general public consumers.

FINANCIAL REVIEW

Three months ended 31 December 2014 compared with three months ended 31 December 2013

The Group recorded a net profit of approximately HK\$5.3 million for the three months ended 31 December 2014, as compared with a loss of approximately HK\$9.6 million for the same period last year.

EBIT of the Group amounted to approximately HK\$7.1 million for the three months ended 31 December 2014 against LBIT of approximately HK\$7.4 million for the same period last year; while the adjusted EBIT decreased to approximately HK\$7.1 million from HK\$11.1 million as follows:

	For the three months ended		
	31 December		
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	% Change
EBIT (LBIT) (Note)	7,075	(7,390)	195.7%
Adjustment for significant one-off expenses of the Group as follows:			
Listing expenses	–	11,118	–100.0%
Equity-settled share-based payments	–	7,364	–100.0%
Adjusted EBIT	7,075	11,092	–36.2%

Note: EBIT (LBIT) represents earnings (loss) before finance costs and taxation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Turnover

The Group's turnover increased by approximately HK\$2.0 million or 3.6% from approximately HK\$56.2 million to HK\$58.2 million for each of the three months ended 31 December 2013 and 2014.

Gross profit and gross profit margin

The Group's gross profit increased by approximately HK\$1.0 million or 2.3% from approximately HK\$44.4 million to HK\$45.4 million for each of the three months ended 31 December 2013 and 2014. The Group's gross profit margin slightly decreased by 0.8 percentage points from 78.9% to 78.1% for each of the three months ended 31 December 2013 and 2014.

Selling and distribution expenses

The Group's selling and distribution expenses slightly decreased by approximately HK\$0.4 million or 2.4% from approximately HK\$16.7 million to HK\$16.3 million for each of the three months ended 31 December 2013 and 2014. In September 2014, the Group took up the opportunity to promote the Royal Medic brand by becoming the title sponsor of the prime time television soap-opera — “The Grand Apothecary”, which was broadcast during the period from 8 September 2014 to 17 October 2014, which was one of the highlights of the Group's advertising activities during the period.

The Group intends to continue its emphasis and efforts in marketing and promoting its brands and products, which will be reflected accordingly in the Group's advertising and promotion expenses.

Administrative expenses

The Group's administrative expenses increased by approximately HK\$5.8 million or 36.9% from approximately HK\$15.7 million to HK\$21.5 million for each of the three months ended 31 December 2013 and 2014. It was primarily attributable to increased (i) salaries costs as a result of salary adjustment and increase in headcounts; and (ii) rental expense on special designated counters (“SDCs”) at the Distribution Facilitator's stores.

Taxation

The Group's taxation decreased by approximately HK\$0.5 million or 22.7% from approximately HK\$2.2 million to HK\$1.7 million for each of the three months ended 31 December 2013 and 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Profit/(loss) for the period

As a result of the foregoing factors, the Group recorded a net profit of approximately HK\$5.3 million for the three months ended 31 December 2014, as compared with a loss of approximately HK\$9.6 million for the same period last year.

Nine months ended 31 December 2014 compared with nine months ended 31 December 2013

The Group recorded a net profit of approximately HK\$14.1 million for the nine months ended 31 December 2014, as compared with a loss of approximately HK\$5.4 million for the same period last year.

EBIT of the Group amounted to approximately HK\$18.2 million for the nine months ended 31 December 2014 against LBIT of approximately HK\$1.4 million for the same period last year; while the adjusted EBIT slightly increased to approximately HK\$19.3 million from HK\$19.2 million as follows:

	For the nine months ended		
	31 December		
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	% Change
EBIT (LBIT) (Note)	18,187	(1,387)	1411.2%
Adjusted for significant one-off expenses (income) of the Group as follows:			
Listing expenses	–	15,370	–100.0%
Equity-settled share-based payments	1,075	7,364	–85.4%
Net gain on disposal of subsidiaries	–	(2,118)	–100.0%
Adjusted EBIT	19,262	19,229	0.2%

Note: EBIT (LBIT) represents earnings (loss) before finance costs and taxation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Turnover

The Group's turnover increased by approximately HK\$27.3 million or 20.9% from approximately HK\$130.4 million to HK\$157.7 million for each of the nine months ended 31 December 2013 and 2014.

The Group's revenue attributable to health supplements increased by approximately HK\$33.5 million or 33.7% from approximately HK\$99.4 million to HK\$132.9 million, while its revenue attributable to beauty supplements and products decreased by approximately HK\$6.3 million or 20.7% from approximately HK\$30.4 million to HK\$24.1 million, for each of the nine months ended 31 December 2013 and 2014.

The Group's revenue attributable to proprietary brands health supplements increased by approximately HK\$19.9 million or 24.8% from approximately HK\$80.1 million to HK\$100.0 million for each of the nine months ended 31 December 2013 and 2014. The increase was primarily due to increase in sales of the Royal Medic brand products.

Revenue attributable to proprietary brands beauty supplements and products decreased by approximately HK\$1.1 million or 4.8% from approximately HK\$22.8 million to HK\$21.7 million for each of the nine months ended 31 December 2013 and 2014.

Revenue attributable to private label brands health supplements increased by approximately HK\$12.4 million or 64.2% from approximately HK\$19.3 million to HK\$31.7 million for each of the nine months ended 31 December 2013 and 2014. The increase in revenue attributable to private label brands was primarily due to (i) the expansion of the product range and (ii) several existing popular private label brands products, which previously were only sold at SDCs, were introduced to be sold on shelves in the stores of the Distribution Facilitator as well.

Revenue attributable to private label brands beauty supplements and products decreased by approximately HK\$5.3 million or 69.7% from approximately HK\$7.6 million to HK\$2.3 million for each of the nine months ended 31 December 2013 and 2014. The decrease was primarily due to the Group focused its product development in other segments during the period under review.

Gross profit and gross profit margin

The Group's gross profit increased by approximately HK\$22.3 million or 22.1% from approximately HK\$101.0 million to HK\$123.3 million for each of the nine months ended 31 December 2013 and 2014. The Group's gross profit margin slightly increased by 0.8 percentage points from 77.4% to 78.2% for each of the nine months ended 31 December 2013 and 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately HK\$5.5 million or 14.3% from approximately HK\$38.4 million to HK\$43.9 million for each of the nine months ended 31 December 2013 and 2014. The increase was primarily attributable to (i) the increase in advertising and promotion expenses to promote sales in Hong Kong and (ii) the increase in commission expenses as a result of the increase in sales generated by promoters while the average commission rate remained stable. In September 2014, the Group took up the opportunity to promote the Royal Medic brand by becoming the title sponsor of the prime time television soap-opera — "The Grand Apothecary", which was broadcast during the period from 8 September 2014 to 17 October 2014.

The Group intends to continue its emphasis and efforts in marketing and promoting its brands and products, which will be reflected accordingly in the Group's advertising and promotion expenses.

Administrative expenses

The Group's administrative expenses increased by approximately HK\$16.1 million or 38.2% from approximately HK\$42.1 million to HK\$58.2 million for each of the nine months ended 31 December 2013 and 2014. It was primarily attributable to increased (i) salaries costs as a result of salary adjustment and increase in headcounts, (ii) consultancy fees related to product development and overseas development, (iii) research and development costs related to preliminary clinical trials and product functionality test, (iv) rental expense on SDCs and (v) professional and advisory fees.

Taxation

The Group's taxation slightly decreased by approximately HK\$50,000 from approximately HK\$3,901,000 to HK\$3,851,000 for each of the nine months ended 31 December 2013 and 2014.

Profit/(loss) for the period

As a result of the foregoing factors, the Group recorded a net profit of approximately HK\$14.1 million during the nine months ended 31 December 2014, as compared with a loss of approximately HK\$5.4 million during the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL MANAGEMENT

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

OUTLOOK

Marketing and promotion activities in Hong Kong

The Group will continue to drive turnover growth by placing strong emphasis on a multifaceted marketing strategy through utilising various media and channels, such as television commercials, printed media, digital media, outdoor advertising, in-store promotion, the Wisdom Club and product road shows. The Group intends to continue to run its advertising and promotion expenses at the current level.

The Group intends to expand its distribution network in Hong Kong by selling products through other chain stores as well as establishing its own stores.

Collaboration with CUCAMed Company Limited

The continuing collaboration with CUCAMed Company Limited ("CUMAMed"), a wholly owned subsidiary of the Chinese University of Hong Kong Foundation Limited, not only enhances the product portfolio of the Group but also increases the brand recognition of Royal Medic.

The Group will continue to develop and promote products under the brand "LEGEND".

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Overseas markets

In order to improve the sales performance and reduce costs in Taiwan, the Group is in negotiations with potential distributors in Taiwan to promote and sell the Group's products. At the same time, the Group's products will continue to be sold in the stores of the distribution facilitator in Taiwan ("Taiwan Distribution Facilitator"), on a non-exclusive basis, without the use of promoters. The Group discontinued the use of promoters in the Taiwan Distribution Facilitator's stores in October 2014.

The Group is also exploring opportunities in the People's Republic of China (the "PRC") and other overseas markets in southeast Asian countries by negotiating with potential distributors.

Save as disclosed above, there was no important event affecting the Group which has occurred since 31 December 2014.

OTHER INFORMATION

DISCLOSURE OF INTEREST

Directors' and chief executive's interests and short position in shares, underlying shares and debentures of the Company

As at 31 December 2014, 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 or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company

Name of Director	Number of shares			Number of underlying shares held under equity derivatives (note 3)	Total	Approximate percentage of interest in the issued share capital*
	Personal interests	Family interests (note 1)	Corporate interests (note 2)			
Mr. CHAN Yan Tak ("Mr. Chan")	–	–	385,400,000	500,000	385,900,000	74.93%
Mr. WONG Mau Tai	–	–	–	5,000,000	5,000,000	0.97%
Mr. FOO Chi Ming	–	–	–	5,000,000	5,000,000	0.97%
Madam TSANG Pui Man ("Madam Tsang")	–	385,400,000	–	500,000 (note 4)	385,900,000	74.93%
Prof. NG Ka Ming	–	–	–	500,000	500,000	0.10%
Mr. CHENG Kwok Kin, Paul	–	–	–	500,000	500,000	0.10%
Mr. WEI Jianan	–	–	–	500,000	500,000	0.10%

OTHER INFORMATION (CONTINUED)

DISCLOSURE OF INTERESTS (CONTINUED)

Notes:

- (1) Madam Tsang is the spouse of Mr. Chan, who owns the entire issued share capital of Able Island Group Limited (the “Able Island”). Accordingly, Madam Tsang is deemed to be interested in 385,400,000 shares of the Company held by Able Island by virtue of the SFO.
 - (2) Mr. Chan owns the entire issued share capital of Able Island. Accordingly, Mr. Chan is deemed to be interested in 385,400,000 shares of the Company held by Able Island by virtue of the SFO.
 - (3) The representing interests in the share options held by the relevant Directors as beneficial owners to subscribe for the relevant underlying shares of the Company granted by the Company under the Share Option Scheme, details of which is set out in the section headed “Share Option Scheme” in this report.
 - (4) The representing interests in the share options held by Mr. Chan as beneficial owner to subscribe for the underlying shares of the Company granted by the Company under the Share Option Scheme. Madam Tsang is the spouse of Mr. Chan and is deemed to be interested such share options held by Mr. Chan by virtue of the SFO.
- * The percentage has been adjusted, if any based on the total number of shares of the Company in issue as at 31 December 2014 (i.e. 515,000,000 shares).

Save as disclosed above, as at 31 December 2014, none of the Directors or the chief executive of the Company had registered any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Save as disclosed herein, at no time during the nine months ended 31 December 2014 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement 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.

OTHER INFORMATION (CONTINUED)

DISCLOSURE OF INTERESTS (CONTINUED)

Substantial Shareholder's Interests in the Company

As at 31 December 2014, according to the register of interests kept by the Company under section 336 of the SFO, the interest of the persons, other than the Directors or the chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

Long positions in shares of the Company

Name of Shareholders	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of interest in the Company's issued share capital*
Able Island (Note)	Beneficial Owner	385,400,000	74.83%

Note: The entire issued share capital of Able Island is beneficially owned by Mr. Chan.

* The percentage has been adjusted, if any based on the total number of shares of the Company in issue as at 31 December 2014 (i.e. 515,000,000 shares).

Save as disclosed above, as at 31 December 2014, the Company had not been notified by any persons (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

OTHER INFORMATION (CONTINUED)

SHARE OPTION SCHEME

Pursuant to a written resolution of the Company passed on 24 September 2013, the Company has conditionally adopted a share option scheme, which has been taken effect on 11 October 2013 (the “Share Option Scheme”).

As at 31 December 2014 and up to the date of this report, 31,000,000 share options were outstanding under the Share Option Scheme, which were fully vested and exercisable. Movements of the share options during the nine months ended 31 December 2014 are listed below in accordance with chapter 23 of the GEM Listing Rules:

Category	As at 1 April 2014	Granted on 7 July 2014	Lapsed	Exercise/ Cancelled	As at 31 December 2014	Note
Directors						
Mr. Chan Yan Tak	500,000	–	–	–	500,000	(1)
Mr. Wong Mau Tai	5,000,000	–	–	–	5,000,000	(1)
Mr. Foo Chi Ming	5,000,000	–	–	–	5,000,000	(1)
Prof. Ng Ka Ming	500,000	–	–	–	500,000	(1)
Mr. Cheng Kwok Kin, Paul	500,000	–	–	–	500,000	(1)
Mr. Wei Jianan	500,000	–	–	–	500,000	(1)
Subtotal	12,000,000	–	–	–	12,000,000	
Continuous Contracts						
Employees	14,500,000	–	(500,000)	–	14,000,000	(1), (2)
Consultant	–	5,000,000	–	–	5,000,000	(3)
Total	26,500,000	5,000,000	(500,000)	–	31,000,000	

OTHER INFORMATION (CONTINUED)

SHARE OPTION SCHEME (CONTINUED)

Notes:

1. The share options are exercisable at any time during the period from 22 November 2013 until 21 November 2016 (both days inclusive) and the exercise price is HK\$1.64.
2. 500,000 share options granted to a continuous contract employee lapsed on 3 August 2014.
3. 5,000,000 share options were granted to a consultant on 7 July 2014 and are exercisable at any time during the period from 7 July 2014 until 6 July 2015 (both days inclusive). The exercise price and the closing price of the shares of the Company before the date on which these options were granted was HK\$1.77 and HK\$1.74, respectively.

The fair values of the share options granted on 7 July 2014 were calculated by Peak Vision Appraisals Limited using the Trinomial Option Pricing Model which is one of the commonly used models for such purpose. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option. The inputs into the model were as follows:

Share price (HK\$)	1.770
Exercise price (HK\$)	1.770
Expected option life (year)	1
Expected volatility	33.20%
Dividend yield	2.41%
Risk-free interest rate	0.15%
Fair value per Share Option (HK\$)	0.215

At 31 December 2014, 31,000,000 share options were fully vested and exercisable. Included in the 31,000,000 share options, 5,000,000 share options were granted by the Company to a consultant on 7 July 2014. The Group recognised a total expense of approximately HK\$1,075,000 for the nine months ended 31 December 2014 in relation to the share options granted by the Company to the consultant on 7 July 2014.

PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the nine months ended 31 December 2014 (during the nine months ended 31 December 2013: Nil).

OTHER INFORMATION (CONTINUED)

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions in the securities of the Company. Upon the Company's specific enquiry, each Director has confirmed that during the nine months ended 31 December 2014, he or she has fully complied with the required standard of dealings and there is no event of non-compliance.

INTEREST OF THE COMPLIANCE ADVISERS

As notified by WAG Worldsec Corporate Finance Limited ("WAG"), the Company's compliance adviser, neither WAG nor its directors or employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2014.

Pursuant to the agreement dated 9 October 2013 entered into between WAG and the Company, WAG received and will receive fees for acting as the Company's compliance adviser.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee"), is currently comprised of the three independent non-executive Directors, namely Mr. CHENG Kwok Kin, Paul, Prof. NG Ka Ming and Mr. WEI Jianan, with written terms of reference in compliance with the GEM Listing Rules. Mr. CHENG acts as the chairman of the Audit Committee. The Audit Committee has reviewed this report and has provided advice and comments thereon.

APPROVAL OF QUARTERLY REPORT

This quarterly report and the unaudited condensed consolidated financial information for the nine months ended 31 December 2014 were approved and authorised for issue by the Board on 12 February 2015.

As at the date of this report, the executive directors of the Company are Mr. CHAN Yan Tak, Mr. WONG Mau Tai and Mr. FOO Chi Ming; the non-executive director of the Company is Madam TSANG Pui Man; and the independent non-executive directors of the Company are Prof. NG Ka Ming, Mr. CHENG Kwok Kin, Paul and Mr. WEI Jianan.