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WAI YUEN TONG MEDICINE HOLDINGS LIMITED

(位元堂藥業控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Financial Highlights			
HK\$' million	Six months ended		
	30 September		
	2017	2016	Change
Revenue	382.6	350.9	9.0%
Gross profit	150.5	156.3	(3.7%)
Net loss attributable to owners of the parent	(40.5)	(38.3)	5.7%
LPS (HK cents)	(3.2)	(7.6)	(57.9%)
– Basic and diluted			
	As at	As at	
	30 September	31 March	
	2017	2017	
Total net asset value	2,624.2	2,657.7	(1.3%)
NAV per share (HK\$)	2.1	2.1	N/A
Gearing ratio	19.2%	16.4%	2.8%
Cash and cash equivalents	210.9	323.7	(34.8%)

* For identification purpose only

INTERIM RESULTS

The board of directors (the “**Board**”) of Wai Yuen Tong Medicine Holdings Limited (the “**Company**”, together with its subsidiaries, collectively referred to as the “**Group**”) is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2017, together with the comparative figures for the corresponding period in 2016. These interim condensed consolidated financial statements were not audited, but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six months ended 30 September 2017

		Six months ended 30 September	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	4	382,552	350,939
Cost of sales		<u>(232,027)</u>	<u>(194,621)</u>
Gross profit		150,525	156,318
Other income and gains	4	62,494	112,206
Selling and distribution expenses		(121,700)	(130,519)
Administrative expenses		(83,538)	(80,576)
Finance costs	6	(9,720)	(7,712)
Change in fair value of equity investments at fair value through profit or loss, net		(8,817)	(41,066)
Fair value gains/(losses) on investment properties, net		4,200	(29,000)
Share of losses of associates		<u>(33,997)</u>	<u>(18,427)</u>
LOSS BEFORE TAX	5	(40,553)	(38,776)
Income tax	7	<u>—</u>	<u>—</u>
LOSS FOR THE PERIOD		<u>(40,553)</u>	<u>(38,776)</u>

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
<i>Note</i>	HK\$'000	HK\$'000
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Change in fair value of an available-for-sale investment	(4,806)	46,844
Share of other comprehensive income/(loss) of an associate	5,973	(11,739)
Translation reserve:		
Translation of foreign operations	5,851	(2,040)
Release upon winding-up of subsidiaries	—	(3,030)
	<hr/>	<hr/>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	7,018	30,035
	<hr/>	<hr/>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(33,535)	(8,741)
	<hr/> <hr/>	<hr/> <hr/>
Loss attributable to:		
Owners of the parent	(40,492)	(38,268)
Non-controlling interests	(61)	(508)
	<hr/>	<hr/>
	(40,553)	(38,776)
	<hr/> <hr/>	<hr/> <hr/>
Total comprehensive loss attributable to:		
Owners of the parent	(33,474)	(8,233)
Non-controlling interests	(61)	(508)
	<hr/>	<hr/>
	(33,535)	(8,741)
	<hr/> <hr/>	<hr/> <hr/>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
	<i>9</i>	
Basic and diluted	HK(3.20) cents	HK(7.61) cents
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2017

	30 September 2017 (Unaudited) HK\$'000	31 March 2017 (Audited) HK\$'000
<i>Note</i>		
NON-CURRENT ASSETS		
Property, plant and equipment	816,958	823,487
Investment properties	483,200	479,000
Goodwill	15,335	15,335
Other intangible assets	164	213
Investments in associates	347,550	375,574
Available-for-sale investment	909,099	912,093
Loan and interests receivables	100,000	80,000
Deposit paid for the acquisition of property, plant and equipment	10,749	10,623
Deferred tax assets	13,761	13,761
	2,696,816	2,710,086
CURRENT ASSETS		
Inventories	196,483	169,712
Trade and other receivables	<i>10</i> 181,719	172,908
Due from associates	7,940	10,417
Equity investments at fair value through profit or loss	141,487	150,303
Loan and interests receivables	84,031	32,823
Tax recoverable	3,307	3,307
Bank balances and cash	210,944	323,695
	825,911	863,165

		30 September	31 March
		2017	2017
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000
CURRENT LIABILITIES			
Trade and other payables	<i>11</i>	177,307	149,476
Bank borrowings		34,790	62,290
Deferred franchise income		93	18
Tax payable		857	857
		<hr/>	<hr/>
Total current liabilities		213,047	212,641
		<hr/>	<hr/>
NET CURRENT ASSETS		612,864	650,524
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,309,680	3,360,610
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Bank borrowings		679,622	697,017
Deferred tax liabilities		5,870	5,870
		<hr/>	<hr/>
Total non-current liabilities		685,492	702,887
		<hr/>	<hr/>
NET ASSETS		2,624,188	2,657,723
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Issued capital		12,651	12,651
Reserves		2,605,666	2,639,140
		<hr/>	<hr/>
Equity attributable to owners of the parent		2,618,317	2,651,791
Non-controlling interests		5,871	5,932
		<hr/>	<hr/>
TOTAL EQUITY		2,624,188	2,657,723
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Company is a limited liability company incorporated in Bermuda and whose shares are publicly traded on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The principal activities of the Group are described in note 3 to the unaudited interim condensed consolidated financial statements.

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

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2017.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group’s audited financial statements for the year ended 31 March 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below.

These unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, except for investment properties, an available-for-sale investment and equity investments at fair value through profit or loss, which have been measured at fair value. These unaudited interim condensed consolidated financial statements are presented in Hong Kong dollar (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current period’s unaudited interim condensed consolidated financial statements:

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Annual Improvements</i> <i>2014-2016 Cycle</i>	Amendments in relation to HKFRS 12 – <i>Disclosure of Interest in Other Entities</i>

The adoption of these HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective in the current period.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their operations and the goods and services they provide and has three reportable operating segments as follows:

- (a) production and sale of Chinese pharmaceutical and health food products - manufacturing, processing and retailing of traditional Chinese medicine which includes Chinese medicinal products sold under the brand name of “Wai Yuen Tong” and a range of products manufactured by selected medicinal materials with traditional prescription, mainly in the People’s Republic of China (the “**PRC**”) and Hong Kong;
- (b) production and sale of Western pharmaceutical and health food products - processing and sale of Western pharmaceutical products and personal care products under the brand name of “Madame Pearl’s” and “Pearl’s”, respectively; and
- (c) property investment - investment in commercial premises for rental income.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit/(loss) before tax except that other income and gains, unallocated expenses, finance costs, net change in fair values of equity investments at fair value through profit or loss and share of losses of associates are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Six months ended 30 September

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

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of Western pharmaceutical and health food products		Property investment		Eliminations		Total	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	312,064	278,621	64,027	67,891	6,461	4,427	—	—	382,552	350,939
Intersegment sales	—	—	—	—	3,666	2,965	(3,666)	(2,965)	—	—
Total	<u>312,064</u>	<u>278,621</u>	<u>64,027</u>	<u>67,891</u>	<u>10,127</u>	<u>7,392</u>	<u>(3,666)</u>	<u>(2,965)</u>	<u>382,552</u>	<u>350,939</u>
Segment results	<u>(7,664)</u>	<u>(5,594)</u>	<u>(23,963)</u>	<u>(12,486)</u>	<u>4,865</u>	<u>(27,979)</u>			<u>(26,762)</u>	<u>(46,059)</u>
Other income and gains									62,494	112,206
Unallocated expenses									(23,751)	(37,718)
Finance costs									(9,720)	(7,712)
Change in fair value of equity investments at fair value through profit or loss, net									(8,817)	(41,066)
Share of losses of associates									(33,997)	(18,427)
Loss before tax									(40,553)	(38,776)
Income tax									—	—
Loss for the period									<u>(40,553)</u>	<u>(38,776)</u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts; gross rental income received and receivable from investment properties; and management and promotion fees received.

An analysis of the Group's revenue, other income and gains is as follows:

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sales of goods	375,613	346,034
Rental income from investment properties	6,461	4,427
Management and promotion fees	478	478
	<u>382,552</u>	<u>350,939</u>
Other income		
Interest income on a loan receivable	3,223	—
Interest income on an available-for-sale investment	47,985	36,134
Imputed interest income on an available-for-sale investment	1,812	1,635
Interest income on bank deposits	757	206
Dividends from equity investments at fair value through profit or loss	2,930	2,874
Sub-lease rental income	4,820	1,361
Others	967	1,220
	<u>62,494</u>	<u>43,430</u>
Gains		
Gain on disposal of items of property, plant and equipment	—	65,746
Gain on winding-up of subsidiaries	—	3,030
	<u>—</u>	<u>68,776</u>
Other income and gains	<u>62,494</u>	<u>112,206</u>

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories recognised as an expense (including provision of allowance for obsolete inventories of approximately HK\$2,259,000 (2016: approximately HK\$1,698,000))	232,027	194,621
Depreciation	25,850	6,979
Amortisation of other intangible assets	80	86
Exchange losses, net	1,353	534
Impairment of trade receivables*	1,430	1,490
Write-off of items of property, plant and equipment	1,217	—
Lease payments under operating leases in respect of land and buildings:		
Minimum lease payments	48,524	48,751
Contingent rents	6,210	6,380
	<u>54,734</u>	<u>55,131</u>
Gross rental income	(6,461)	(4,427)
Less: direct outgoing expenses	77	226
	<u>(6,384)</u>	<u>(4,201)</u>

* Impairment of trade receivables is included in "Administrative expenses" in the condensed consolidated statement of profit or loss and other comprehensive income.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank borrowings	<u>9,720</u>	<u>7,712</u>

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong in the current and the prior periods. Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Total tax charge for the period	<u>—</u>	<u>—</u>

8. INTERIM DIVIDEND

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

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,265,142,888 (30 September 2016: 503,116,548) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 September 2017 and 2016 in respect of a dilution as the impact of share options outstanding had no dilutive effect on the basic loss per share amounts presented.

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted loss per share for the period ended 30 September 2016 has been adjusted to reflect the impact of the rights issue completed on 29 September 2016.

The calculations of basic and diluted loss per share are based on:

	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in basic and diluted loss per share calculation	<u>(40,492)</u>	<u>(38,268)</u>
	Number of shares	
	Six months ended 30 September	
	2017	2016
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	<u>1,265,142,888</u>	<u>503,116,548</u>

10. TRADE AND OTHER RECEIVABLES

	30 September	31 March
	2017	2017
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade receivables	98,368	87,984
Less: Accumulated impairment	<u>(4,041)</u>	<u>(2,611)</u>
	<u>94,327</u>	<u>85,373</u>
Rental and other deposits	33,130	36,597
Prepayments	35,800	31,709
Other receivables	18,462	19,229
Deposit paid for the acquisition of property, plant and equipment	<u>10,749</u>	<u>10,623</u>
	<u>98,141</u>	<u>98,158</u>
Total trade and other receivables	192,468	183,531
Less: Deposit classified as a non-current asset	<u>(10,749)</u>	<u>(10,623)</u>
Current portion	<u>181,719</u>	<u>172,908</u>

The Group's trading terms with its customers are mainly on credit. The credit period ranges from 60 to 120 days. Each customer has a maximum credit limit and the credit limit is reviewed regularly. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

An aged analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	30 September	31 March
	2017	2017
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 1 month	44,541	32,007
1 to 3 months	32,769	30,288
3 to 6 months	14,084	20,276
Over 6 months	2,933	2,802
	94,327	85,373

11. TRADE AND OTHER PAYABLES

	30 September 2017 (Unaudited) HK\$'000	31 March 2017 (Audited) HK\$'000
Trade payables	94,460	61,077
Accrual of salaries and commission	26,631	17,955
Accrual of advertising and promotion	11,378	15,570
Rental deposits received	4,318	4,563
Other payables and accruals	40,520	50,311
	177,307	149,476

The aged analysis of trade payables, presented based on the invoice date, is as follows:

	30 September 2017 (Unaudited) HK\$'000	31 March 2017 (Audited) HK\$'000
Within 1 month	43,780	22,536
1 to 3 months	44,946	23,422
3 to 6 months	5,734	10,201
Over 6 months	—	4,918
	94,460	61,077

The trade and other payables are non-interest-bearing. The credit periods on purchase of goods are 30 to 60 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2017 (the “**Period**”), the Group’s revenue increased by approximately 9.0% to approximately HK\$382.6 million (2016: approximately HK\$350.9 million). The Group recorded a loss attributable to owners of the parent amounting to approximately HK\$40.5 million (2016: a loss attributable to owners of the parent amounted to approximately HK\$38.3 million). Loss in results was mainly attributable to the unrealised loss in fair value of equity investments at fair value through profit or loss of the Group and share of loss in an associate of the Company during the period under review.

(1) Chinese Pharmaceutical and Health Food Products

Revenue for the Period has increased by approximately 12.0% from the corresponding period of last year to approximately HK\$312.1 million. The increase in revenue is mainly due to the pick-up sign in Hong Kong retail market. Meanwhile, continuous increase in people’s awareness in healthcare, the PRC’s consumers’ confidence over the quality of healthcare products and quality herbs in Hong Kong, and increase in the exposure of the Group, which drove the increase in the same-store sales of the Group. As the Group continued to widen distribution network of the products, other sales channels including key accounts achieved a mild growth during the Period.

As one of the leading brands of healthcare products in Hong Kong, the product quality of “Wai Yuen Tong” has been trusted by consumers. The Group operates retail stores, some of which provide complementary Traditional Chinese Medicine services, under the brand “Wai Yuen Tong” and also has the largest Chinese medicine retail network in Hong Kong. Currently, there are about 60 shops in Hong Kong. The Group has continued to renovate numerous “Wai Yuen Tong” retail stores to bring in elements of fashionable and modern design, in order to expand customer base.

The Group launched its own mobile app in early August 2017 to accommodate the information receiving and new consumption pattern of young consumers. The app was downloaded heavily at this stage. Also, the app has Chinese doctor appointment and rapid tongue diagnosis functions, with an aim to attract long term use of the consumers. During the Period, the Group’s e-store platform has also been a positive way to enhance marketing efficiency, while e-channels continue to record stable revenue during the Period.

The Group continued strictly adhering to the comprehensive quality assurance procedures. In the beginning of 2017, the Group’s New Factory for Western pharmaceutical and Chinese traditional medicines in Yuen Long Industrial Estate was completed and commenced production in early April. The new facility not only expands the Group’s production capacity, but also complements the Group’s effort to pursue innovation, meet market demand and trend and expand product variety for its customers. It is expected that the high value-added new products developed by the Group, such as Angong Niu Huang Wan and Angong Jiangya Wan, will be launched to the market in December 2017 to enrich the existing product portfolio, and the source of revenue. On the other hand, the Group’s factory in Mainland China could obtain Good Manufacturing Practice (“GMP”) certification from the State Food and Drug Administration by the end of 2017. The main products from this factory are Chinese medicine crude slices. Upon its commissioning, the production capacity and variety of our Chinese medicinal products could be expanded.

In addition, “Wai Yuen Tong” continued to implement promotion campaigns to enhance the brand awareness and product image. During the Period, Wai Yuen Tong used “STAY HEALTHY, STAY PRETTY” as slogan, which invited Ms. Gigi Leung Wing Ki, a Hong Kong singer and artist who is well-recognised in Mainland China, Taiwan and Hong Kong, as the spokesperson of the Group’s “Wall-Broken Ganoderma Lucidum Spores (Upgraded Formula)”, for promoting the healthy urban living suggestion to the public.

(2) Western Pharmaceutical and Health Food Products

The Hong Kong economy and consumption environment have been gradually recovered, we carried out strategic cooperation with mainstream chain personal care pharmacies in various aspects and leverage on our reputation and resources in pharmaceuticals and personal care products, sales in Hong Kong retail market remained stable, yet sales in Mainland China and oversea regions dropped, resulting in an overall decrease in revenue. Revenue for the Period has decreased by approximately 5.7% from the corresponding period of last year to approximately HK\$64.0 million.

In respond to the fierce competition in Mainland China and the seasonal unstable in number of visitor arrival, the Group timely adjusted its marketing strategies. We explored new sale channels and enhanced product types to capture revenue and income. The Group's famous "Pearl's" MosquitOut products is a leading product in the market, however its sales remained stable and only recorded a slight drop due to numerous similar products in the market and increase in price competition. Sales of products under "MP-Professional" brand like Madame Pearl's Breath Easy patches also recorded slight decrease.

Apart from using marketing strategies to further expand the sales in Mainland market, the Group is also enhancing its product R&D to better satisfy the market needs with product variety. The Group's pharmaceutical production plants have obtained GMP license from the Hong Kong Department of Health and the higher qualification of European standard of "The Pharmaceutical Inspection Co-operation Scheme" (PIC/S) in September 2017. The Group is currently making use of the advanced equipment in the new plant to strengthen its R&D of its core medical solution products and further enhance product quality assurance. Meanwhile, the Group will strive to intensify our product penetration into the market through enhanced advertisement and promotion activities and exploration of sales channels, such as institutional sales to hospitals, to boost our sales revenue.

(3) Property Investment

At the end of the Period, the Group owned 12 properties which are all retail premises. Some of these properties were leased out for commercial purpose whereas some were used as our retail shops. During the Period, the net fair value gains on investment properties of the Group amounted to HK\$4.2 million. Despite the upward adjustment in the valuation of the properties as compared to last year, we consider that our investment property portfolio can provide stability to the operating cost of retail shops and strengthen the Group's income base in the long run.

(4) Investment in Easy One Financial Group Limited (“Easy One”)

Easy One, a company listed on the Main Board of the Stock Exchange, is principally engaged in the businesses of property development in the PRC, provision of finance and securities brokerage services in Hong Kong.

During the Period, there has been no change in the Group’s shareholding in Easy One. As at 30 September 2017, the Group held approximately 28.51% of the issued shares of Easy One.

The Group’s share of loss of Easy One amounted to approximately HK\$34.0 million for the period ended 30 September 2017 (2016: share of loss amounted to approximately HK\$18.5 million).

No impairment on the investment in Easy One was recognised by the Group during the Period (2016: Nil) as the recoverable amount was assessed to be close to the carrying value of the interest in Easy One.

During the Period, the Group granted a loan facility to Easy One of HK\$100.0 million for a term of 24 months at an interest rate of 6.5% per annum, details of which were set out in the Company’s announcement dated 5 October 2016. As at the date of this announcement, HK\$100.0 million had been drawn down by instalments by Easy One.

(5) Investment in China Agri-Products Exchange Limited (“CAP”)

CAP, a company listed on the Main Board of the Stock Exchange, is principally engaged in the management and sales of properties in agricultural produce exchange markets in the PRC.

Pursuant to the subscription agreement dated 4 October 2014 (as supplemented on 28 November 2014), the Group had subscribed an unlisted 5-year bond due November 2019 with coupon rate of 10.0% per annum issued by CAP with an outstanding principal amount of HK\$720 million on 28 November 2014 (the “**First CAP Bond**”). In addition, pursuant to the sale and purchase agreement dated 5 July 2016 (as supplemented on 8 July 2016), the Group acquired bonds issued by CAP with an outstanding principal amount of HK\$200 million (the “**Second CAP Bond**”, together with the First CAP Bond, the “**CAP 2019 Bonds**”) from Double Leads Investments Limited (“**Double Leads**”), an indirectly wholly-owned subsidiary of Wang On Group Limited (“**Wang On**”), a controlling shareholder and the ultimate holding company of the Company whose shares are listed on the Main Board of the Stock Exchange.

As at 30 September 2017, the Group held a principal amount of HK\$920.0 million (31 March 2017: HK\$920 million) of the CAP 2019 Bonds and the fair value of the CAP 2019 Bonds held by the Group amounted to approximately HK\$909.1 million (31 March 2017: approximately HK\$912.1 million).

(6) Equity Investments at Fair Value through Profit or Loss

The Group has maintained a portfolio of listed equity securities in Hong Kong which are held for trading purpose. The Group has recorded a net loss on change in fair value of equity investments at fair value through profit or loss of approximately HK\$8.8 million for the Period (2016: a net loss of approximately HK\$41.1 million).

(7) Commissioning of the New Factory in Yuen Long

The Group had built a state-of-the-art factory in Yuen Long Industrial Estate to manufacture both Chinese traditional medicines and Western pharmaceuticals, which certifies that our products are “100% made in Hong Kong” and attain international product quality standard.

Upon the completion of the New Factory, the trial production was commenced in 2017 and was gradually put into production in April 2017. Both our overall production capacity and level of product quality control have been enhanced significantly. Meanwhile, in October 2016 and the first half of 2017, Wai Yuen Tong’s new GMP factory was awarded the certificate of GMP for Proprietary Chinese Medicine from the Chinese Medicine Council of Hong Kong and the certification for of European standard of “The Pharmaceutical Inspection Co-operation Scheme” (PIC/S), the most stringent manufacturing practice regulation with worldwide recognition, from the Therapeutic Goods Administration of Australia (TGA). With regard to “Luxembourg” new GMP factory, an application for the certification of PIC/S has been submitted to The Pharmacy and Poisons Board of Hong Kong and is expected to be approved in the second half of 2017. It certifies that the Group’s products are “100% made in Hong Kong” and the quality satisfies international pharmaceutical manufacturing standard.

The New Factory has six Chinese medicine production lines and three Western pharmaceutical production lines, which has added separate clean manufacturing units and introduced advanced equipment and inspection instruments for the production system of Chinese medicines and Western medicines to extract and concentrate Chinese medicines by scientific technology and manufacture “Young Yum Pill” and all types of Chinese patent medicines and health food products in a full automation process. In the meantime, the Group will have its production of Luxembourg Western pharmaceutical products in the New Factory through a full automation process. The factory is also equipped with state-of-the-art laboratory in microbiology and laboratory equipment. With the pure water system conforming to the specifications in the British Pharmacopoeia, the products will be in compliance with the Hospital Authority’s medicine tenders requirement as well as the indicators of the prescription medicines by local doctors.

(8) Acquisition of a Factory Building and Two Dormitory Buildings in the PRC

To expand the Group's manufacturing capacity and further strengthen its business in the PRC, on 16 July 2015, the Group entered into a provisional agreement with The Sky High Plastic Works Limited (the "Vendor"), a third party independent of and not connected with the Company and its connected persons, for the acquisition of the Mainland Factory comprising a factory building and two dormitory buildings located at Nanbu Village, Pingshan Town, Shenzhen, the PRC, with a gross floor area of approximately 19,475 square meters for a total consideration of approximately HK\$81.3 million.

This factory will be put into production in stages within this year as planned by the Group to accommodate to the synergies of the factory in Hong Kong and to lay the foundation for the Group to expand its PRC market.

FINANCIAL REVIEW

Fund Raising

On 29 September 2016, the Company completed a rights issue on the basis of 3 rights shares for every 1 existing share held by qualifying shareholders at an issue price of HK\$0.43 per rights share and a total of 948,857,166 rights shares were issued (the "Rights Issue"). The net proceeds from the Rights Issue amounted to approximately HK\$400.7 million, of which the Group intended to utilise (i) approximately HK\$50.0 million for the payment of installation of facilities and equipment for the Group's factory in the PRC; (ii) approximately HK\$200.0 million for the acquisition of the HK\$200.0 million CAP 2019 Bonds from Double Leads; (iii) approximately HK\$50.0 million for the repayment of outstanding bank borrowings and interests of the Group; and (iv) the remaining balance of approximately HK\$100.7 million for general working capital of the Group.

As at 30 September 2017, the net proceeds of the Rights Issue was utilised as intended.

Liquidity and Gearing and Financial Resources

As at 30 September 2017, the Group had total assets of approximately HK\$3,522.7 million (31 March 2017: approximately HK\$3,573.3 million) which were financed by current liabilities of approximately HK\$213.0 million (31 March 2017: approximately HK\$212.6 million), non-current liabilities of approximately HK\$685.5 million (31 March 2017: approximately HK\$702.9 million) and shareholders' equity of approximately HK\$2,624.2 million (31 March 2017: approximately HK\$2,657.7 million).

As at 30 September 2017, the Group's bank balances and cash were approximately HK\$210.9 million (31 March 2017: approximately HK\$323.7 million). As at 30 September 2017, the Group's total bank borrowings amounted to approximately HK\$714.4 million (31 March 2017: approximately 759.3 million), all of which bore interest at floating interest rates and were denominated in Hong Kong dollars. As at 30 September 2017, the maturity profile of all bank borrowings based on the scheduled repayment dates set out in the relevant loan agreements was shown below, together with the corresponding figures as at 31 March 2017:

	30 September 2017 (Unaudited) HK\$'000	31 March 2017 (Audited) HK\$'000
Bank loans repayable:		
Within one year	34,790	62,290
In the second year	37,500	34,790
In the third to fifth years, inclusive	147,500	139,370
Beyond five years	494,622	522,857
	<u>714,412</u>	<u>759,307</u>

The Group maintained a healthy liquidity position. The current ratio, being a ratio of current assets to current liabilities, was approximately 3.9 (31 March 2017: approximately 4.1). The gearing ratio, being the ratio of total borrowings net of bank balances and cash to equity attributable to owners of the parent, was approximately 19.2% (31 March 2017: approximately 16.4%). The Group always adopts a conservative approach in its financial management.

Significant Investments Held

As at 30 September 2017, the Group had available-for-sale investment of approximately HK\$909.1 million and equity investments at fair value through profit or loss of approximately HK\$141.5 million, details of which were set out as follows:

Nature of investments	As at 30 September 2017				For the year ended 30 September 2017			Fair value/ carrying amount		Investment cost
	Number of shares held	Amount / units held	Percentage of	Percentage	Change in Fair value	Imputed interest income	Interests/ Dividends received	As at	As at	
			shareholding in such stock	to the Group's total assets				September 2017	March 2017	
HK'000	HK\$'000	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Available- for-sale investment (unlisted securities debenture):										
CAP - CAP 2019 Bonds	–	909,099	–	25.807%	(4,806)	1,812	47,985	909,099	912,093	920,000
		<u>909,099</u>		<u>25.807%</u>	<u>(4,806)</u>	<u>1,812</u>	<u>47,985</u>	<u>909,099</u>	<u>912,093</u>	<u>920,000</u>
Equity investments at fair value through profit or loss:										
A. Listed Investments										
Kingston Financial Group Limited (“Kingston”)	12,336	49,097	0.09%	1.394%	17,887	—	308	49,097	31,210	9,413
Jun Yang Solar Power Investments Ltd (“Jun Yang”)	1,333	159	0.05%	0.005%	(13)	—	—	159	172	9,705
Town Health International Investment Limited (“Town Health”)	52,500	36,750	0.70%	1.043%	(28,351)	—	147	36,750	65,100	16,434
Sino Harbour Property Group Ltd (“Sino Harbour”)	36,000	18,000	1.46%	0.511%	(360)	—	360	18,000	18,360	20,049
Wang On	423,000	30,879	2.19%	0.877%	1,269	—	2,115	30,879	29,610	16,819
B. Mutual Funds										
Emerging Market Bond Fund	33	564	—	0.016%	24	—	—	564	540	519
China Growth Fund	13	160	—	0.005%	25	—	—	160	135	130
Asian Equity Plus Fund	20	295	—	0.008%	49	—	—	295	246	212
ASEAN Frontiers Fund	21	255	—	0.006%	21	—	—	255	234	212
USD Money Fund	57	540	—	0.015%	(18)	—	—	540	558	541
Opus Mezzanine Fund I LP		4,788	—	0.136%	650	—	—	4,788	4,138	3,900
		<u>141,487</u>		<u>4.016%</u>	<u>(8,817)</u>		<u>2,930</u>	<u>141,487</u>	<u>150,303</u>	<u>77,934</u>

Principal activities of listed securities are as follows:

1. Kingston Financial Group Limited (“**Kingston**”)

Kingston is principally engaged in the provision of a wide range of financial services which include securities underwriting and placements, margin and initial public offering financing, securities brokerage, corporate finance advisory services, futures brokerage and asset management services. Kingston also provides gaming and hospitality services in Macau.

2. Jun Yang Solar Power Investments Ltd (“**Jun Yang**”)

Jun Yang is principally engaged in financial services business, solar energy business with a current focus on development, construction, operation and maintenance of power station projects, money lending business and asset investment business.

3. Town Health International Medical Group Limited (“**Town Health**”)

Town Health is principally engaged in (i) healthcare business investments; (ii) provision and management of medical, dental and other healthcare related services; and (iii) investments and trading in properties and securities.

4. Sino Harbour Property Group Ltd (“**Sino Harbour**”)

Sino Harbour is principally engaged in the property development business with a focus on residential properties in Jiangxi Province, the PRC.

5. Wang On

Wang On is principally engaged in property development, property investment, management and sub-licensing of Chinese wet markets, treasury management and production and sales of pharmaceutical health food products and personal care products in Hong Kong and the PRC.

The Group also invested in certain other mutual funds including an emerging market bond fund, a China-focused growth fund, an Asian equity “plus” fund and an US dollar currency fund.

Financial Review and Prospect of Significant Investments Held

Available-for-sale investment

As at 30 September 2017, the Group held a principal amount of HK\$920.0 million (31 March 2017: HK\$920.0 million) of the CAP 2019 Bonds. As at 30 September 2017, the fair value of all such bonds held by the Group amounted to approximately HK\$909.1 million (31 March 2017: approximately HK\$912.1 million). Such bonds provide a reasonable and stable cash income stream to the Group and the Group intends to hold them until their maturities.

Equity investments at fair value through profit or loss

With a view to optimise its use of cash resources, the Group selectively invests in various listed equity securities and mutual funds. As at 30 September 2017, the Group has maintained a portfolio of listed equity securities in Hong Kong and mutual funds which are held for trading purpose. The Group has recorded a net loss on change in fair value of equity investments at fair value through profit or loss of approximately HK\$8.8 million for the period under review (2016: a net loss of approximately HK\$41.1 million). The Group always adopts a prudent investment strategy and will closely monitor the market changes and adjust its investment portfolio as and when necessary.

Foreign Exchange

The Board is of the opinion that the Group has no material foreign exchange exposure. All bank borrowings are denominated in Hong Kong dollars. The revenue of the Group, being mostly denominated in Renminbi and Hong Kong dollars, matches the currency requirements of the Group's operating expenses. The Group therefore does not engage in any hedging activities.

Capital Commitment

As at 30 September 2017, the Group had capital commitment of approximately HK\$8.4 million (31 March 2017: approximately HK\$11.0 million) in respect of the acquisition of property, plant and equipment, which were contracted for but not provided for in the consolidated financial statements.

Pledge of Assets

As at 30 September 2017, the Group's bank borrowings were secured by the Group's land and buildings and investment properties, with a total carrying value of approximately HK\$636.2 million (31 March 2017: approximately HK\$634.6 million).

Contingent Liabilities

As at 30 September 2017, the Group had no material contingent liabilities (31 March 2017: Nil).

EMPLOYEES

As at 30 September 2017, the Group had 1,016 (31 March 2017: 947) employees, of whom approximately 55.7% (31 March 2017: approximately 57.2%) were located in Hong Kong and the rest were located in Mainland China. The Group remunerates its employees based on industry practices and individual performance and experience. On top of the regular remuneration, discretionary bonus and share options may be granted to selected staff by reference to the Group's performance as well as the individual performance. Other benefits such as medical and retirement benefits and structured training programs are also provided.

PROSPECTS

In accordance with the statistics published by the Census and Statistics Department, the overall retail sales in Hong Kong has been shown the sign of recovery since April 2017, the value index of retail sales in August 2017 also increased by 2.7 year-on-year. As pick-up in the retail market as well as the second half in 2017 to the early 2018 will be the festive shopping peak season of festivals, we have confidence that the sales of the Group will be benefited.

Wai Yuen Tong has been established in the Hong Kong Chinese medicine market for 120 years, which continues to develop and promotes the rejuvenation of the brand. Except for a mobile app with functions of Chinese doctor appointment and rapid tongue diagnosis launched in recent months so as to attract customer base with age under 50, we also released a series of promotion campaigns for enhancing product image. During the Period, Wai Yuen Tong used “STAY HEALTHY, STAY PRETTY ” as slogan, who invited Ms. Gigi Leung Wing Ki (梁詠琪), a Hong Kong singer and artist which is well-recognised in Mainland, Taiwan and Hong Kong, as the spokesperson of our “Wall-Broken Ganoderma Lucidum Spores (Upgraded Formula)”, for promoting the healthy urban living suggestion to the public.

In addition, the “Wai Yuen Tong” brand enjoys a distinguished brand recognition in Mainland China, we expect that demand of Chinese medicine and health food purchasing will continue to increase and Wai Yuen Tong’s business in Mainland China will gradually improve. Under China Thirteenth Five-Year Plan, traditional Chinese medicine was promoted to a national strategic industry status, with an aim to resolve the critical scientific issue restraining the development of Chinese medicine. It has been a great motivation for the Chinese medicine industry and at the same time promotes the modernisation and international development of Chinese pharmaceuticals. Led by the PRC’s “Belt and Road” initiative, the progressive growth of Chinese medicine market in Mainland China will provide abundant opportunities for the Group.

Under the varying market condition, the Group will continue to adhere to its strict quality control and maintain sincere customer services at its highest quality to capture market share. We better understand changes on the market and customers’ consumption pattern through the flexible operating strategies designed to cope with the market variations. We also explore and adopt new products and services to diversify our product lines to further broaden our customer base. In terms of marketing, our Management will strive to explore new sales channels and promotional activities, keep up with the market, modernise both sales and marketing work and create a younger brand image, enhance brand recognition and to satisfy various needs of different consumer group.

New plant in Yuen Long commenced operation in April 2017, significantly enhanced our production capacity and product research capability. The Group developed high value-added new products, such as Angong Niu Huang Wan and Angong Jiangya Wan, which are expected to launch in December 2017, and also health supplements on lowering the so-called “three highs” in response to the market demand with an aim to treat various urban diseases. We have also deepened our expansion into Mainland market through online selling platform, self-operated stores and Chinese medicine clinic. The Group will continue to explore suitable merger and acquisition opportunities to diversify its current business portfolio, which not only would expand the scale of our operation but also increase the Group’s source of revenue. In addition, the Group will optimise and adjust its retail store network in Hong Kong and Mainland China to further enhance the operational cost-effectiveness. The Group will enhance its own mobile app, attract the younger generation of consumers, enrich interaction with customers to build up a long term and stable relationship.

As “a century-old well-established brand and a Hong Kong brand”, “Wai Yuen Tong” will, based on its solid foundation and trusted position amongst customers, continue to develop its core business and take up the challenges with flexibility, innovative ideas and operational mechanisms, in order to provide our customers in both the Mainland China and Hong Kong, and even from overseas, with quality products and services.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 September 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Board, the Company has complied with the applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules throughout the Period.

The Group is committed to maintaining a high standard of corporate governance within a sensible framework with a strong emphasis on transparency, accountability, integrity and independence and enhancing the Company’s competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its code of conduct regarding the securities transactions by the directors of the Company on the terms no less exacting terms than the required standard set forth in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all directors, the Company confirmed that all directors had complied with the required standard set out in the Model Code throughout the period under review and no incident of non-compliance by the directors was noted by the Company during the Period.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over, among other things, the Group's financial reporting process, internal controls, risk management and other corporate governance issues. The Audit Committee has reviewed with the management the unaudited condensed consolidated financial statements for the six months ended 30 September 2017 of the Group. The Audit Committee comprises the four independent non-executive directors of the Company, namely Messrs. Li, Ka Fai, David, Leung Wai Ho, Siu Man Ho, Simon and Cho Wing Mou and Mr. Li Ka Fai, David was elected as the chairman of the Audit Committee.

PUBLICATION OF RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT

The interim results announcement is published on the websites of HKExnews at (www.hkexnews.hk) and the Company at (www.wyth.net). The 2017 interim report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

By Order of the Board

WAI YUEN TONG MEDICINE HOLDINGS LIMITED

(位元堂藥業控股有限公司*)

Tang Ching Ho

Chairman

Hong Kong, 21 November 2017

As at the date of this announcement, the executive directors of the Company are Mr. Tang Ching Ho, Mr. Chan Chun Hong, Thomas and Ms. Tang Mui Fun and the independent non-executive directors of the Company are Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon, Mr. Cho Wing Mou and Mr. Li Ka Fai, David.

* *For identification purpose only*