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**PuraPharm**  
**PURAPHARM CORPORATION LIMITED**  
**培力控股有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 1498)**

**INTERIM RESULTS ANNOUNCEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

|   | Six months ended 30 June |                 | Change          |                |
|---|--------------------------|-----------------|-----------------|----------------|
|   | 2019                     | 2018            |                 |                |
|   | <i>HK\$'000</i>          | <i>HK\$'000</i> | <i>HK\$'000</i> | %              |
| China CCMG                              | <b>133,982</b>           | 166,107         | (32,125)        | (19.3)         |
| Hong Kong CCMG                          | <b>83,851</b>            | 83,793          | 58              | 0.1            |
| Chinese Healthcare products             | <b>48,508</b>            | 48,555          | (47)            | (0.1)          |
| Nong's® (農本方®) Chinese medicine clinics | <b>51,664</b>            | 44,980          | 6,684           | 14.9           |
| Plantation                              | <b>15,553</b>            | 43,169          | (27,616)        | (64.0)         |
| Total                                   | <b><u>333,558</u></b>    | <u>386,604</u>  | <u>(53,046)</u> | <u>(13.7)</u>  |
| (Loss)/Profit for the period            | <b><u>(45,180)</u></b>   | <u>13,348</u>   | <u>(58,528)</u> | <u>(438.5)</u> |

The board (the “**Board**”) of directors (the “**Directors**”) of PuraPharm Corporation Limited (the “**Company**”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2019 (the “**Reporting Period**”) as follows.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

|  | <i>Notes</i> | Six months ended 30 June               |  |
|--|--------------|--|--|
|  |              | 2019<br><i>HK\$'000</i><br>(Unaudited) | 2018<br><i>HK\$'000</i><br>(Unaudited) |
| REVENUE  | 5            | 333,558                                | 386,604                                |
| Cost of sales  |              | <u>(140,112)</u>                       | <u>(150,293)</u>                       |
| Gross profit   |              | 193,446                                | 236,311                                |
| Other income and gains   | 5            | 6,752                                  | 15,514                                 |
| Selling and distribution expenses  |              | (115,856)                              | (115,979)                              |
| Administrative expenses  |              | (105,707)                              | (105,712)                              |
| Impairment of financial assets, net  |              | (2,690)                                | (801)                                  |
| Other expenses   |              | (5,177)                                | (2,556)                                |
| Finance costs  |              | <u>(13,516)</u>                        | <u>(11,085)</u>                        |
| (LOSS)/PROFIT BEFORE TAX   | 6            | (42,748)                               | 15,692                                 |
| Income tax expense   | 7            | <u>(2,432)</u>                         | <u>(2,344)</u>                         |
| (LOSS)/PROFIT FOR THE PERIOD   |              | <u>(45,180)</u>                        | <u>13,348</u>                          |
| Attributable to owners of the parent   |              | <u>(45,180)</u>                        | <u>13,348</u>                          |
| (LOSS)/EARNINGS PER SHARE<br>ATTRIBUTABLE TO THE ORDINARY<br>EQUITY HOLDERS OF THE PARENT<br>(expressed in HK cents per share) |              |  |  |
| Basic  |              |  |  |
| — For (loss)/profit for the period   | 9            | <u>(18.4)</u>                          | <u>5.5</u>                             |
| Diluted  |              |  |  |
| — For (loss)/profit for the period   | 9            | <u>(18.4)</u>                          | <u>5.4</u>                             |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|   | <b>Six months ended 30 June</b> |                    |
|---|---------------------------------|--------------------|
|   | <b>2019</b>                     | <b>2018</b>        |
|   | <i>HK\$'000</i>                 | <i>HK\$'000</i>    |
|   | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| (LOSS)/PROFIT FOR THE PERIOD                              | <u><b>(45,180)</b></u>          | <u>13,348</u>      |
| OTHER COMPREHENSIVE LOSS                                  |                                 |                    |
| Exchange differences on translation of foreign operations | <u><b>(1,991)</b></u>           | <u>(717)</u>       |
| OTHER COMPREHENSIVE LOSS FOR THE PERIOD,<br>NET OF TAX    | <u><b>(1,991)</b></u>           | <u>(717)</u>       |
| TOTAL COMPREHENSIVE (LOSS)/INCOME<br>FOR THE PERIOD       | <u><b>(47,171)</b></u>          | <u>12,631</u>      |
| Attributable to owners of the parent                      | <u><b>(47,171)</b></u>          | <u>12,631</u>      |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|   |              | 30 June<br>2019                | 31 December<br>2018          |
|---|--------------|--------------------------------|------------------------------|
|   | <i>Notes</i> | <i>HK\$'000</i><br>(Unaudited) | <i>HK\$'000</i><br>(Audited) |
| <b>NON-CURRENT ASSETS</b>                             |              |                                |                              |
| Property, plant and equipment                         |              | 254,557                        | 294,676                      |
| Right-of-use assets                                   |              | 136,810                        | –                            |
| Prepaid land lease payments                           |              | –                              | 45,622                       |
| Investment properties                                 |              | 8,425                          | –                            |
| Other intangible assets                               |              | 34,911                         | 36,190                       |
| Goodwill  | 10           | 155,685                        | 155,685                      |
| Financial assets at fair value through profit or loss |              | 10,831                         | 10,741                       |
| Biological assets                                     |              | 33,214                         | 28,386                       |
| Prepayments for non-current assets                    | 12           | 68,994                         | 13,196                       |
| Deferred tax assets                                   |              | 17,614                         | 16,383                       |
| <b>Total non-current assets</b>                       |              | <b>721,041</b>                 | 600,879                      |
| <b>CURRENT ASSETS</b>                                 |              |                                |                              |
| Inventories   |              | 190,134                        | 214,033                      |
| Biological assets                                     |              | 46,218                         | 45,461                       |
| Trade and bills receivables                           | 11           | 241,298                        | 290,657                      |
| Prepayments, deposits and other receivables           | 12           | 67,952                         | 66,402                       |
| Tax recoverable                                       |              | –                              | 1,787                        |
| Pledged bank deposits                                 |              | 16,957                         | 9,000                        |
| Cash and cash equivalents                             |              | 57,410                         | 104,884                      |
| <b>Total current assets</b>                           |              | <b>619,969</b>                 | 732,224                      |
| <b>CURRENT LIABILITIES</b>                            |              |                                |                              |
| Trade and bills payables                              | 13           | 143,500                        | 139,201                      |
| Other payables and accruals                           |              | 92,532                         | 71,426                       |
| Lease liabilities                                     |              | 33,280                         | –                            |
| Interest-bearing bank and other borrowings            | 14           | 315,775                        | 354,028                      |
| Loans from a director                                 |              | 45,000                         | 30,000                       |
| Tax payable   |              | 4,412                          | 3,712                        |
| Government grants                                     |              | 3,155                          | 2,358                        |
| <b>Total current liabilities</b>                      |              | <b>637,654</b>                 | 600,725                      |
| <b>NET CURRENT (LIABILITIES)/ASSETS</b>               |              | <b>(17,685)</b>                | 131,499                      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |              | <b>703,356</b>                 | 732,378                      |

|  |              | <b>30 June<br/>2019</b> | 31 December<br>2018    |
|--|--------------|-------------------------|------------------------|
|  | <i>Notes</i> | <b><i>HK\$'000</i></b>  | <b><i>HK\$'000</i></b> |
| TOTAL ASSETS LESS CURRENT LIABILITIES              |              | <b>703,356</b>          | 732,378                |
| <b>NON-CURRENT LIABILITIES</b>                     |              |                         |                        |
| Interest-bearing bank and other borrowings         | <i>14</i>    | <b>129,391</b>          | 164,449                |
| Lease liabilities                                  |              | <b>54,675</b>           | –                      |
| Government grants                                  |              | <b>957</b>              | 3,194                  |
| Deferred tax liabilities                           |              | <b>2,282</b>            | 2,516                  |
| Total non-current liabilities                      |              | <b>187,305</b>          | 170,159                |
| Net assets   |              | <b>516,051</b>          | 562,219                |
| <b>EQUITY</b>                                      |              |                         |                        |
| <b>Equity attributable to owners of the parent</b> |              |                         |                        |
| Share capital                                      | <i>15</i>    | <b>191,981</b>          | 191,981                |
| Shares held for share award scheme                 | <i>16(b)</i> | <b>(7,238)</b>          | (8,200)                |
| Reserves   |              | <b>331,308</b>          | 378,438                |
| Total equity                                       |              | <b>516,051</b>          | 562,219                |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|  | <i>Notes</i> | <b>Six months ended 30 June</b> |             |
|--|--------------|---------------------------------|-------------|
|  |              | <b>2019</b>                     | 2018        |
|  |              | <b>HK\$'000</b>                 | HK\$'000    |
|  |              | <b>(Unaudited)</b>              | (Unaudited) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                              |              |                                 |             |
| (Loss)/Profit before tax:  |              | <b>(42,748)</b>                 | 15,692      |
| Adjustments for:   |              |                                 |             |
| Finance costs  |              | <b>13,516</b>                   | 11,085      |
| Foreign exchange loss, net   | 6            | <b>610</b>                      | 332         |
| Fair value loss/(gain) on biological assets                              | 6            | <b>915</b>                      | (3,360)     |
| Loss on disposal of property, plant and equipment                        | 6            | <b>1,740</b>                    | 928         |
| Fair value gain on financial assets at fair value through profit or loss | 5            | <b>(90)</b>                     | (318)       |
| Share option expense   | 16(a)        | <b>797</b>                      | –           |
| Equity-settled share award expense                                       | 16(b)        | <b>206</b>                      | 1,336       |
| Depreciation of property, plant and equipment                            | 6            | <b>14,903</b>                   | 13,660      |
| Depreciation of right-of-use assets                                      | 6            | <b>14,728</b>                   | –           |
| Amortisation of prepaid land lease payments                              | 6            | –                               | 1,478       |
| Amortisation of other intangible assets                                  | 6            | <b>1,930</b>                    | 1,448       |
| Write-down of inventories to net realisable value                        | 6            | <b>2,632</b>                    | 1,271       |
| Bank interest income   | 5            | <b>(223)</b>                    | (221)       |
| Impairment of trade and bills receivables                                | 6            | <b>2,690</b>                    | 801         |
|  |              | <b>11,606</b>                   | 44,132      |
| Decrease in inventories  |              | <b>29,622</b>                   | 25,689      |
| Increase in biological assets  |              | <b>(15,264)</b>                 | (5,044)     |
| Increase/(decrease) in trade and bills receivables                       |              | <b>43,885</b>                   | (27,983)    |
| Increase in prepayments, deposits and other receivables                  |              | <b>(3,712)</b>                  | (496)       |
| Increase in trade and bills payables                                     |              | <b>6,201</b>                    | 2,274       |
| Increase/(decrease) in government grants                                 |              | <b>(1,387)</b>                  | 672         |
| Increase/(decrease) in other payables and accruals                       |              | <b>(10,315)</b>                 | 7,867       |
| Cash generated used in operations  |              | <b>60,636</b>                   | 47,111      |
| Interest received  |              | <b>223</b>                      | 221         |
| Interest element of finance lease rental payments                        |              | <b>(2,738)</b>                  | –           |
| Hong Kong income tax paid  |              | <b>(784)</b>                    | (303)       |
| Overseas profits tax paid  |              | <b>(597)</b>                    | (181)       |
| PRC corporate income tax paid  |              | <b>(112)</b>                    | (2,228)     |
| Net cash flows generated from operating activities                       |              | <b>56,628</b>                   | 44,620      |

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2019</b>                     | 2018        |
|   | <b>HK\$'000</b>                 | HK\$'000    |
|   | <b>(Unaudited)</b>              | (Unaudited) |
| Net cash flows generated from operating activities                | <b>56,628</b>                   | 44,620      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |                                 |             |
| Disposal of financial assets at fair value through profit or loss | –                               | 11,685      |
| Purchases of property, plant and equipment                        | <b>(11,828)</b>                 | (30,522)    |
| Purchases of right-of-use assets                                  | <b>(26,609)</b>                 | –           |
| Proceeds from disposal of items of property, plant and equipment  | <b>128</b>                      | 2,061       |
| Addition to intangible assets                                     | <b>(661)</b>                    | (3,248)     |
| Increase in pledged deposits                                      | <b>(7,957)</b>                  | –           |
| Net cash flows used in investing activities                       | <b>(46,927)</b>                 | (20,024)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                       |                                 |             |
| New bank loans  | <b>140,276</b>                  | 265,207     |
| Repayment of bank loans   | <b>(189,205)</b>                | (340,342)   |
| Loans from a director   | <b>15,000</b>                   | 50,000      |
| Interest paid   | <b>(10,775)</b>                 | (12,563)    |
| Principal portion of lease payment                                | <b>(17,639)</b>                 | –           |
| Net cash flows generated used in financing activities             | <b>(62,343)</b>                 | (37,698)    |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                  | <b>(52,642)</b>                 | (13,102)    |
| Cash and cash equivalents at beginning of period                  | <b>90,516</b>                   | 86,805      |
| Effect of foreign exchange rate changes, net                      | <b>1,881</b>                    | 1,860       |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                 | <b>39,755</b>                   | 75,563      |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>          |                                 |             |
| Cash and bank balances  | <b>57,410</b>                   | 83,390      |
| Bank overdrafts   | <b>(17,655)</b>                 | (7,827)     |
|   | <b>39,755</b>                   | 75,563      |

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION AND REORGANISATION

PuraPharm Corporation Limited (the “**Company**”) was incorporated as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands on 2 December 2011. The registered office address is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands.

The Company is an investment holding company. During the six months ended 30 June 2019 (the “**Reporting Period**”), the Company and its subsidiaries (the “**Group**”) were principally engaged in the research, development, production and sale of concentrated Chinese medicine granule (“**CCMG**”) products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and manufacturing and sales of Traditional Chinese Medicine (“**TCM**”) decoction pieces (“**中藥飲片**”), as well as rendering of Chinese medical diagnostic services.

In the opinion of the board of directors of the Company (the “**Directors**”), the ultimate holding company is Fullgold Development Limited, which was incorporated in BVI and is wholly owned by Mr. Abraham, Chan Yu Ling (“**Mr. Abraham Chan**”), the founder of the Group.

### 2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.



As at 30 June 2019, the Group had net current liabilities of HK\$17.7 million (31 December 2018: net current assets of HK\$131.5 million). In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implanting the following measures:

- (a) The Group continues to restructure the mix of products with the aim to increase the portion of products with higher margin so as to attain profitable and positive cash flow operations;
- (b) The Group is taking measures to tighten cost controls over administrative and other operating expenses aiming at improving the working capital and cash flow position of the Group; and
- (c) As at 30 June 2019, the Group recorded unutilised bank facilities amounting to HK\$180.1 million. Therefore, upon repayment when due or on demand, subject to the condition that the Group will be able to repay the total principal and interest due upon the respective repayment dates. Based on the abovementioned agreements and past experience, the directors consider it is highly probable that the Group can extend adequate amount of short-term bank loans for another year when fall due to maintain sufficient working capital of the Group.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with unutilised bank facilities and capitalisation of loans from a director, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the six months ended 30 June 2019 on a going concern basis.

### 3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the Reporting Period's financial statements:

|  |   |
|--|---|
| Amendments to HKFRS 9                      | <i>Prepayment Features with Negative Compensation</i>       |
| HKFRS 16                                   | <i>Leases</i>   |
| Amendments to HKAS 19                      | <i>Plan Amendment, Curtailment or Settlement</i>            |
| Amendments to HKAS 28                      | <i>Long-term Interests in Associates and Joint Ventures</i> |
| HK(IFRIC)-Int 23                           | <i>Uncertainty over Income Tax Treatments</i>               |
| <i>Annual Improvements 2015–2017 Cycle</i> | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23        |

Other than as further explained below, the application of these new and revised HKFRSs in the Reporting Period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

#### HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

### *New definition of a lease*

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

### *As a lessee — Leases previously classified as operating leases*

#### *Nature of the effect of adoption of HKFRS 16*

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

#### *Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the statement of financial position. This includes the liabilities recognised previous under finance lease of HK\$24,122,000 were reclassified from interest-bearing bank and other borrowings.

The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK\$26,024,000, prepaid land lease payments of HK\$45,622,000 and HK\$1,556,000 that were reclassified from property, plant and equipment, prepaid land lease payments and prepayments, other receivables and other assets, respectively.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

***Impacts on transition***

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

|   | <b>Increase/<br/>(decrease)<br/>HK\$'000<br/>(Unaudited)</b> |
|---|--|
| <b>Assets</b>   |  |
| Increase in right-of-use assets                             | 122,678  |
| Decrease in property, plant and equipment                   | (26,024)   |
| Decrease in prepaid land lease payments                     | (45,622)   |
| Decrease in prepayments, other receivables and other assets | <u>(1,556)</u>   |
| Increase in total assets                                    | <u><u>49,476</u></u>   |
| <b>Liabilities</b>  |  |
| Increase in lease liabilities                               | 73,598   |
| Decrease in interest-bearing bank and other borrowing       | <u>(24,122)</u>  |
| Increase in total liabilities                               | <u><u>49,476</u></u>   |

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

|   | <i>HK\$'000</i><br>(Unaudited) |
|---|--------------------------------|
| <b>Operating lease commitments as at 31 December 2018</b>   | 76,255                         |
| Weighted average incremental borrowing rate as at 1 January 2019  | 4.15%                          |
| Discounted operating lease commitments as at 1 January 2019   | 60,341                         |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 | (10,865)                       |
| Add: Commitments relating to leases previously classified as finance leases   | <u>24,122</u>                  |
| <b>Lease liabilities as at 1 January 2019</b>   | <u><u>73,598</u></u>           |

### ***Summary of new accounting policies***

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

#### ***Right-of-use assets***

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

#### ***Lease liabilities***

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

#### ***Significant judgement in determining the lease term of contracts with renewal options***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

*Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss*

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follow:

|                             | <b>Right-of-use assets</b> |                                |                  | <b>Lease liabilities</b> |
|-----------------------------|----------------------------|--------------------------------|------------------|--------------------------|
|                             | <b>Land and buildings</b>  | <b>Machinery and equipment</b> | <b>Sub-total</b> |                          |
|                             | <i>HK\$'000</i>            | <i>HK\$'000</i>                | <i>HK\$'000</i>  | <i>HK\$'000</i>          |
| <b>As at 1 January 2019</b> | 98,758                     | 23,920                         | 122,678          | 73,598                   |
| Additions                   | 30,209                     | –                              | 30,209           | 29,935                   |
| Depreciation charge         | (12,792)                   | (1,936)                        | (14,728)         | –                        |
| Interest expense            | –                          | –                              | –                | 2,738                    |
| Payments                    | –                          | –                              | –                | (17,639)                 |
| Exchange realignment        | (1,062)                    | (287)                          | (1,349)          | (677)                    |
| <b>As at 30 June 2019</b>   | <u>115,113</u>             | <u>21,697</u>                  | <u>136,810</u>   | <u>87,955</u>            |

### 3.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these interim condensed consolidated financial statements:

|   |  |
|---|--|
| Amendments to HKFRS 3                     | <i>Definition of a Business<sup>1</sup></i>  |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i> |
| HKFRS 17                                  | <i>Insurance Contracts<sup>2</sup></i>   |
| Amendments to HKAS 1 and HKFRS 8          | <i>Definition of Material<sup>1</sup></i>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>3</sup> No mandatory effective date yet determined but available for adoption

The Group expects that the adoption of the above new and revised standards will have no significant impact on these financial statements.

#### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (a) the China CCMG segment mainly engages in the production and sale of CCMG products in China;
- (b) the Hong Kong CCMG segment mainly engages in the sale of CCMG products excluding the sales through self-operated clinics in Hong Kong;
- (c) the Chinese healthcare products segment mainly engages in the production and sale of Chinese healthcare products in Hong Kong, the USA and Japan;
- (d) the clinics segment mainly engages in the provision of Chinese medical diagnostic services and sale of CCMG products through self-operated clinics; and
- (e) the plantation segment mainly engages in the plantation and trading of raw Chinese herbs, and manufacture and sale of TCM decoction pieces.

Management monitors the results of the Group's operating segments respectively for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss after tax. The adjusted profit or loss after tax is measured consistently with the Group's profit or loss after tax except interest income, net foreign exchange gain/(loss), finance costs, corporate and other unallocated expenses and income tax expense.

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

As compared with the segment information included in the consolidated financial statements for the year ended 30 June 2018, the government grants derived from the China CCMG segment was included in the China CCMG segments for the year ended 30 June 2019. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosure.

The following tables present revenue, profit and other segment information for the Group's operating segments for the six months ended 30 June 2019 and 2018.

**Six months ended 30 June 2019 (Unaudited)**

|  | China<br>CCMG<br>HK\$'000 | Hong Kong<br>CCMG<br>HK\$'000 | Chinese<br>healthcare<br>products<br>HK\$'000 | Clinics<br>HK\$'000 | Plantation<br>HK\$'000 | Elimination<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------|-------------------------------|---|---------------------|------------------------|-------------------------|-------------------|
| <b>Segment revenue:</b>  |                           |                               |   |                     |                        |                         |                   |
| Revenue to external customers  | 133,982                   | 83,851                        | 48,508  | 51,664              | 15,553                 | –                       | 333,558           |
| Intersegment sales   | 50,825                    | 8,971                         | 461   | –                   | 3,517                  | (63,774)                | –                 |
|  | <u>184,807</u>            | <u>92,822</u>                 | <u>48,969</u>                                 | <u>51,664</u>       | <u>19,070</u>          | <u>(63,774)</u>         | <u>333,558</u>    |
| <b>Segment results</b>   | (13,471)                  | 18,776                        | 8,072   | (12,504)            | (6,036)                | –                       | (5,163)           |
| Reconciliations:   |                           |                               |   |                     |                        |                         |                   |
| Interest income  |                           |                               |   |                     |                        |                         | 223               |
| Foreign exchange loss, net   |                           |                               |   |                     |                        |                         | (610)             |
| Share Option Scheme  |                           |                               |   |                     |                        |                         | (797)             |
| Equity-settled Share<br>Award Scheme   |                           |                               |   |                     |                        |                         | (206)             |
| Finance costs  |                           |                               |   |                     |                        |                         | (13,516)          |
| Corporate and other<br>unallocated expenses  |                           |                               |   |                     |                        |                         | (22,679)          |
| Loss before tax  |                           |                               |   |                     |                        |                         | (42,748)          |
| Income tax expense   |                           |                               |   |                     |                        |                         | (2,432)           |
| <b>Net loss</b>  |                           |                               |   |                     |                        |                         | <u>(45,180)</u>   |
| <b>Other segment information:</b>  |                           |                               |   |                     |                        |                         |                   |
| Depreciation of right-of-use assets  | 3,288                     | –                             | 874   | 9,719               | 847                    | –                       | 14,728            |
| Depreciation and amortisation of<br>property, plant and equipment<br>and other intangible assets | 5,780                     | 1,350                         | 1,925   | 5,536               | 2,242                  | –                       | 16,833            |
| Loss on disposal of items of<br>property, plant and equipment                                    | –                         | –                             | –   | 1,740               | –                      | –                       | 1,740             |
| Write-down of inventories to<br>net realisable value   | 2,632                     | –                             | –   | –                   | –                      | –                       | 2,632             |
| Impairment of trade and<br>bills receivables   | 2,690                     | –                             | –   | –                   | –                      | –                       | 2,690             |

Six months ended 30 June 2018 (Unaudited)

|  | China<br>CCMG<br>HK\$'000 | Hong Kong<br>CCMG<br>HK\$'000 | Chinese<br>healthcare<br>products<br>HK\$'000 | Clinics<br>HK\$'000 | Plantation<br>HK\$'000 | Elimination<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------|-------------------------------|---|---------------------|------------------------|-------------------------|-------------------|
| <b>Segment revenue:</b>  |                           |                               |   |                     |                        |                         |                   |
| Revenue to external customers  | 166,107                   | 83,793                        | 48,555  | 44,980              | 43,169                 | –                       | 386,604           |
| Intersegment sales   | <u>52,142</u>             | <u>7,698</u>                  | <u>316</u>                                    | <u>–</u>            | <u>4,441</u>           | <u>(64,597)</u>         | <u>–</u>          |
|  | <u>218,249</u>            | <u>91,491</u>                 | <u>48,871</u>                                 | <u>44,980</u>       | <u>47,610</u>          | <u>(64,597)</u>         | <u>386,604</u>    |
| <b>Segment results</b>   | 24,125                    | 21,591                        | 5,819   | (10,842)            | 11,161                 | –                       | 51,854            |
| Reconciliations:   |                           |                               |   |                     |                        |                         |                   |
| Interest income  |                           |                               |   |                     |                        |                         | 221               |
| Foreign exchange loss, net   |                           |                               |   |                     |                        |                         | (332)             |
| Equity-settled Share<br>Award Scheme   |                           |                               |   |                     |                        |                         | (1,336)           |
| Finance costs  |                           |                               |   |                     |                        |                         | (11,085)          |
| Corporate and other<br>unallocated expenses  |                           |                               |   |                     |                        |                         | <u>(23,630)</u>   |
| Profit before tax  |                           |                               |   |                     |                        |                         | 15,692            |
| Income tax expense   |                           |                               |   |                     |                        |                         | <u>(2,344)</u>    |
| <b>Net profit</b>  |                           |                               |   |                     |                        |                         | <u>13,348</u>     |
| <b>Other segment information:</b>  |                           |                               |   |                     |                        |                         |                   |
| Depreciation and amortisation of<br>property, plant and equipment,<br>prepaid land lease payments and<br>other intangible assets | 7,948                     | 1,976                         | 1,013   | 2,926               | 2,723                  | –                       | 16,586            |
| Loss on disposal of items of<br>property, plant and equipment  | 348                       | –                             | –   | 580                 | –                      | –                       | 928               |
| Write-down of inventories to<br>net realisable value   | 708                       | 563                           | –   | –                   | –                      | –                       | 1,271             |
| Impairment of trade and<br>bills receivables   | <u>801</u>                | <u>–</u>                      | <u>–</u>                                      | <u>–</u>            | <u>–</u>               | <u>–</u>                | <u>801</u>        |



## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered.

An analysis of revenue, other income and gains is as follows:

|   | <b>Six months ended 30 June</b>                      |  |
|---|--|--|
|   | <b>2019</b><br><i>HK\$'000</i><br><b>(Unaudited)</b> | <b>2018</b><br><i>HK\$'000</i><br><b>(Unaudited)</b> |
| <b>Revenue from contracts with customers</b>                                    |  |  |
| Sales of CCMG products  | <b>256,609</b>                                       | 283,577  |
| Sales of Chinese healthcare products  | <b>48,508</b>  | 48,555   |
| Sales of raw Chinese herbs  | <b>15,553</b>  | 43,169   |
| Rendering of Chinese medical diagnostic services<br>(the "Diagnostic Services") | <b>12,888</b>  | 11,303   |
|   | <b>333,558</b>                                       | 386,604  |

### Disaggregated revenue information

#### For the six months ended 30 June 2019

| <b>Segments</b>                             | <b>Sale of<br/>goods</b><br><i>HK\$'000</i> | <b>Diagnostic<br/>services</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i> |
|---|---|---|---------------------------------|
| <b>Type of goods or services</b>            |   |   |                                 |
| Sale of goods                               | 320,670                                     | –   | 320,670                         |
| Rendering of services                       | –   | 12,888  | 12,888                          |
| Total revenue from contracts with customers | <b>320,670</b>                              | <b>12,888</b>                                     | <b>333,558</b>                  |
| <b>Geographical markets</b>                 |   |   |                                 |
| Hong Kong                                   | 145,842                                     | 12,498  | 158,340                         |
| Mainland China                              | 150,978                                     | 387   | 151,365                         |
| Other countries/regions                     | 23,850                                      | 3   | 23,853                          |
| Total revenue from contracts with customers | <b>320,670</b>                              | <b>12,888</b>                                     | <b>333,558</b>                  |
| <b>Timing of revenue recognition</b>        |   |   |                                 |
| Goods transferred at a point in time        | 320,670                                     | –   | 320,670                         |
| Services transferred over time              | –   | 12,888  | 12,888                          |
| Total revenue from contracts with customers | <b>320,670</b>                              | <b>12,888</b>                                     | <b>333,558</b>                  |

|  | <b>Six months ended 30 June</b> |                    |
|--|---------------------------------|--------------------|
|  | <b>2019</b>                     | <b>2018</b>        |
|  | <b>HK\$'000</b>                 | <b>HK\$'000</b>    |
|  | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| <b>Other income and gains</b>  |                                 |                    |
| Government grants*   | <b>4,595</b>                    | 10,511             |
| Fair value gain on biological assets, net                                | –                               | 3,360              |
| Gain from the sale of equipment and accessories                          | <b>1,271</b>                    | 996                |
| Fair value gain on financial assets at fair value through profit or loss | <b>90</b>                       | 318                |
| Bank interest income   | <b>223</b>                      | 221                |
| Others   | <b>573</b>                      | 108                |
|  | <b>6,752</b>                    | 15,514             |

\* Balance represented government grants from the relevant authorities in the People's Republic of China (the "PRC"), which consist primarily of subsidies and compensation for operation finance cost, rewarding the Group's industrial investments in poverty area, research and development costs and grants for improvement of our research facilities in relation to certain research and development projects.

## 6. PROFIT BEFORE TAX

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

|  | <b>Six months ended 30 June</b> |                    |
|--|---------------------------------|--------------------|
|  | <b>2019</b>                     | <b>2018</b>        |
|  | <b>HK\$'000</b>                 | <b>HK\$'000</b>    |
|  | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
| Cost of inventories sold                                       | <b>130,954</b>                  | 142,755            |
| Cost of services provided                                      | <b>6,526</b>                    | 6,267              |
| Depreciation of property, plant and equipment                  | <b>14,903</b>                   | 13,660             |
| Depreciation of right-of-use assets                            | <b>14,728</b>                   | –                  |
| Amortisation of prepaid land lease payments                    | –                               | 1,478              |
| Amortisation of other intangible assets                        | <b>1,930</b>                    | 1,448              |
| Research and development costs*                                | <b>11,856</b>                   | 9,015              |
| Minimum lease payments under operating leases:                 |                                 |                    |
| Office equipment   | <b>50</b>                       | 98                 |
| Land and buildings   | <b>3,961</b>                    | 18,587             |
|  | <b>4,011</b>                    | 18,685             |
| Auditors' remuneration   | <b>1,583</b>                    | 1,468              |
| Employee benefit expenses (excluding directors' remuneration): |                                 |                    |
| Wages and salaries   | <b>50,413</b>                   | 48,899             |
| Pension scheme contributions                                   | <b>5,932</b>                    | 6,822              |
| Share option expenses (note 16(a))                             | <b>72</b>                       | –                  |
| Equity-settled share award expenses (note 16(b))               | <b>(90)</b>                     | 605                |
|  | <b>56,327</b>                   | 56,326             |
| Foreign exchange loss, net**                                   | <b>610</b>                      | 332                |
| Fair value loss/(gain) on biological assets, net               | <b>915</b>                      | (3,360)            |
| Loss on disposal of items of property, plant and equipment     | <b>1,740</b>                    | 928                |
| Impairment of financial and contract asset, net:               |                                 |                    |
| Impairment of trade and bills receivables, net                 | <b>2,690</b>                    | 801                |
| Write-down of inventories to net realisable value ***          | <b>2,632</b>                    | 1,271              |

- \* Included in the research and development costs, there are expenditure of HK\$1,001,000 (six months ended 30 June 2018: HK\$401,000) disclosed in the item of “depreciation” and HK\$4,250,000 (six months ended 30 June 2018: HK\$3,902,000) disclosed in the item of “employee benefit expenses” for the six months ended 30 June 2019.
- \*\* The foreign exchange loss is included in “Other expenses” in the interim condensed consolidated statements of profit or loss.
- \*\*\* The write-down of inventories to net realisable value is included in “Cost of Sales” in the interim condensed consolidated statement of profit or loss.

## 7. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong, U.S. and Japan profits taxes have been provided at the rates of 16.5%, 24% and 23.2% on the estimated assessable profits arising in the respective jurisdictions during the six months ended 30 June 2019 and 2018. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group’s PRC subsidiary, Purapharm (Nanning) Pharmaceuticals Co., Limited (“**PuraPharm Nanning**”), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15%.

According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) DZ Plantation Co., Ltd and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd have obtained the documentation acknowledged by the in-charge tax authority for the CIT exemption for the six months ended 30 June 2019 and 2018 and the preferential income tax rate was 0%.

|                                 | <b>Six months ended 30 June</b> |                 |
|---------------------------------|---------------------------------|-----------------|
|                                 | <b>2019</b>                     | 2018            |
|                                 | <i>HK\$’000</i>                 | <i>HK\$’000</i> |
|                                 | <b>(Unaudited)</b>              | (Unaudited)     |
| Current                         | <b>3,934</b>                    | 4,121           |
| Deferred                        | <b>(1,502)</b>                  | (1,777)         |
|                                 | <hr/>                           | <hr/>           |
| Total tax charge for the period | <b>2,432</b>                    | 2,344           |
|                                 | <hr/> <hr/>                     | <hr/> <hr/>     |

## 8. DIVIDEND

No interim dividend was proposed for the six months ended 30 June 2019 (2018: nil).

## 9. Earnings/(Loss) Per Share

### (a) Basic

Basic earnings or loss per share is calculated by dividing the profit or loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2019 excluding ordinary shares purchased by the Group held for Award Scheme (note 16(b)).

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2019<br>(Unaudited)      | 2018<br>(Unaudited) |
| Profit/(loss) attributable to the owners of the parent (HK\$'000)        | <u>(45,180)</u>          | <u>13,348</u>       |
| Weighted average number of ordinary shares<br>in issue during the period | <u>245,244,351</u>       | <u>244,737,528</u>  |
| Basic earnings/(loss) per share (expressed in HK cents per share)        | <u>(18.4)</u>            | <u>5.5</u>          |

### (b) Diluted

Diluted earnings or loss per share is calculated by dividing the profit or loss attributable to owners of the parent by the adjusted weighted average number of ordinary shares outstanding assuming conversion of dilutive potential of Award Shares. A calculation is done to determine the number of shares that could have been issued by exercising the right of Award Shares under the Award Schemes.

|  | Six months ended 30 June |                     |
|--|--------------------------|---------------------|
|  | 2019<br>(Unaudited)      | 2018<br>(Unaudited) |
| Profit/(loss) attributable to the owners of the parent (HK\$'000)                        | <u>(45,180)</u>          | <u>13,348</u>       |
| Weighted average number of ordinary shares<br>in issue during the period                 | <u>245,244,351</u>       | <u>244,737,528</u>  |
| Adjustment for Award Shares  | <u>—*</u>                | <u>1,834,530</u>    |
| Weighted average number of ordinary shares for<br>diluted earnings per share calculation | <u>245,244,351</u>       | <u>246,572,058</u>  |
| Diluted earnings/(loss) per share (expressed in HK cents per share)                      | <u>(18.4)</u>            | <u>5.4</u>          |

\* Because the diluted loss per share amount is increased when taking Award Shares into account, the Award Shares had an anti-dilutive effect on the basic loss per share for six month ended 30 June 2019 and were ignored in the calculation of diluted loss per share during six month ended 30 June 2019.

The Group also had no potentially dilutive ordinary shares in issue for Share Options during six months ended 30 June 2019 as its exercise price is higher than market price at the end of the reporting period.

## 10. GOODWILL

|                        | <b>2019</b><br><i>HK\$'000</i><br>(Unaudited) | 2018<br><i>HK\$'000</i><br>(Audited) |
|------------------------|---|--------------------------------------|
| At 30 June/31 December | <u><b>155,685</b></u>                         | <u>155,685</u>                       |

### Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units (the “CGU”) for impairment testing:

- Plantation CGU;
- Chinese herbal products CGU; and
- SODX Co., Ltd CGU (“**SODX CGU**”).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

|                             | <b>30 June</b><br><b>2019</b><br><i>HK\$'000</i><br>(Unaudited) | 31 December<br>2018<br><i>HK\$'000</i><br>(Audited) |
|-----------------------------|---|---|
| Plantation CGU              | <b>134,692</b>  | 134,692   |
| Chinese herbal products CGU | <b>13,705</b>   | 13,705  |
| SODX CGU                    | <b>7,288</b>  | 7,288   |
|                             | <u><b>155,685</b></u>   | <u>155,685</u>                                      |

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets or forecasts approved by management covering a period of 5 to 8 years. The growth rates used to extrapolate the cash flows beyond the period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

The pre-tax discount rates applied to cash flow projections and the growth rates used to extrapolate cash flows beyond the 5 to 8 years period are as follows:

|                             | <b>30 June 2019</b> |                                  | 31 December 2018 |                          |
|-----------------------------|---------------------|----------------------------------|------------------|--------------------------|
|                             | <b>Growth Rate</b>  | <b>Pre-tax<br/>Discount Rate</b> | Growth Rate      | Pre-tax<br>Discount Rate |
| Plantation CGU              | <b>2.7%</b>         | <b>15.0%</b>                     | 2.7%             | 15.0%                    |
| Chinese herbal products CGU | <b>2.0%</b>         | <b>19.0%</b>                     | 2.0%             | 21.1%                    |
| SODX CGU                    | <b>0.8%</b>         | <b>11.7%</b>                     | 1.1%             | 12.0%                    |

Assumptions were used in the value in use calculation of each CGU as at 30 June 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

Budgeted sales amounts — The budgeted sales amounts are based on the historical sales data and market outlook perceived by management.

Budgeted gross margins — The bases used to determine the values assigned to the budgeted gross margins are the average gross margins achieved in the year immediately before the budget year, adjusted for expected efficiency gains and expected market development.

Pre-tax discount rates — The discount rates reflect specific risks relating to the relevant CGUs.

Budgeted raw materials purchase prices — The bases used to determine the values assigned to budgeted raw materials purchase prices are the forecasted price indices during the budget year for those countries where raw materials are sourced.

The values assigned to the key assumptions on market development of the CGUs, discount rates and raw materials purchase prices are consistent with external information sources.

In the opinion of the directors of the Company, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of each CGU to exceed its recoverable amount.

## 11. TRADE AND BILLS RECEIVABLES

|   | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|---|-------------------------|---------------------|
|   | <i>HK\$'000</i>         | <i>HK\$'000</i>     |
|   | <b>(Unaudited)</b>      | (Audited)           |
| Trade receivables                               | <b>241,093</b>          | 285,379             |
| Bills receivables                               | <b>14,929</b>           | 17,514              |
|   | <b>256,022</b>          | 302,893             |
| Less: impairment of trade and bills receivables | <b>(14,724)</b>         | (12,236)            |
|   | <b>241,298</b>          | 290,657             |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to six months, extending up to longer periods for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy 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.

An ageing analysis of the trade and bills receivables as at the end of the Reporting Period, based on the invoice date and net of impairment, is as follows:

|                 | <b>30 June<br/>2019<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2018<br>HK\$'000<br>(Audited) |
|-----------------|--|--|
| Within 1 months | <b>62,026</b>  | 103,620                                      |
| 1 to 3 months   | <b>54,249</b>  | 58,895                                       |
| 3 to 6 months   | <b>38,529</b>  | 44,861                                       |
| Over 6 months   | <b>86,494</b>  | 83,281                                       |
|                 | <b>241,298</b>                                       | 290,657                                      |

As at 30 June 2019, the Group had certain concentrations of credit risk as 5% of the Group's prepayment, deposits and other receivables (31 December 2018: 7%) were due from a company significantly influenced by Mr. He Ding Xiang, a director of the Group's subsidiaries Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd.

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                                    | <b>30 June<br/>2019<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2018<br>HK\$'000<br>(Audited) |
|------------------------------------|--|--|
| Non-current                        |  |  |
| Prepayments for non-current assets | <b>68,994</b>  | 13,196                                       |
| Current                            |  |  |
| Prepayments                        | <b>105,308</b>                                       | 47,425                                       |
| Receivables from third agents      | <b>30</b>  | 790  |
| Right of return assets             | <b>1,949</b>   | 2,213  |
| Deposit and other receivables      | <b>29,899</b>  | 29,413                                       |
|                                    | <b>137,186</b>                                       | 79,841                                       |
| Less: Impairment allowance         | <b>(240)</b>   | (243)  |
|                                    | <b>136,946</b>                                       | 79,598                                       |
| Portion classified as non-current  | <b>(68,994)</b>                                      | (13,196)                                     |
| Total                              | <b>67,952</b>  | 66,402                                       |

### 13. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

|                | <b>30 June<br/>2019<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2018<br>HK\$'000<br>(Audited) |
|----------------|--|--|
| Within 1 month | <b>33,327</b>  | 41,106                                       |
| 1 to 2 months  | <b>6,562</b>   | 5,939  |
| 2 to 3 months  | <b>9,232</b>   | 14,007                                       |
| Over 3 months  | <b>94,379</b>  | 78,149                                       |
|                | <b><u>143,500</u></b>                                | <u>139,201</u>                               |

The trade payables are interest-free and are normally settled on terms of one to three months, extending to longer periods for those long standing suppliers.

Included in the trade and bills payables was an amount due to a company significantly influenced by Mr. He of HK\$2,500,000 (31 December 2018: HK\$3,840,000) as at 30 June 2019.



## 14. INTEREST-BEARING BANK AND OTHER BORROWINGS

|   | 30 June 2019<br>(Unaudited)       |           |                       |
|---|-----------------------------------|-----------|-----------------------|
|   | Effective<br>interest rate<br>(%) | Maturity  | HK\$'000              |
| <b>Current</b>                              |                                   |           |                       |
| Bank overdraft — unsecured                  | 4.38–5.25                         | On demand | 17,655                |
| Bank loans — secured                        | 2.25–6.06                         | On demand | 86,964                |
| Bank loans — secured                        | 0.85–8.00                         | 2019–2020 | 87,884                |
| Bank loans — unsecured                      | 2.23–4.50                         | On demand | 107,536               |
| Bank loans — unsecured                      | 4.66–6.18                         | 2019–2020 | 15,736                |
|   |                                   |           | <u>315,775</u>        |
| <b>Non-current</b>                          |                                   |           |                       |
| Bank loans and other borrowings — secured   | 0.85–8.00                         | 2020–2028 | 93,643                |
| Bank loans — unsecured                      | 4.50–6.18                         | 2020–2022 | 35,748                |
|   |                                   |           | <u>129,391</u>        |
| Total                                       |                                   |           | <u><u>445,166</u></u> |
|   | 31 December 2018<br>(Audited)     |           |                       |
|   | Effective<br>interest rate<br>(%) | Maturity  | HK\$'000              |
| <b>Current</b>                              |                                   |           |                       |
| Bank overdraft — secured                    | 4.00–4.13                         | On demand | 6,478                 |
| Bank overdraft — unsecured                  | 5.00, 5.13                        | On demand | 7,890                 |
| Bank loans — secured                        | 0.85–5.70                         | 2019      | 138,479               |
| Bank loans — secured                        | 2.00–4.57                         | On demand | 72,574                |
| Bank loans — unsecured                      | 4.66                              | 2019      | 1,728                 |
| Bank loans — unsecured                      | 2.60–6.83                         | On demand | 119,083               |
| Finance lease payables                      | 10.75                             | 2019      | 7,796                 |
|   |                                   |           | <u>354,028</u>        |
| <b>Non-current</b>                          |                                   |           |                       |
| Bank loans — secured                        | 0.85–8.00                         | 2020–2028 | 107,115               |
| Bank loans and other borrowings — unsecured | 4.66–6.18                         | 2021–2022 | 41,008                |
| Finance lease payables                      | 10.75                             | 2021      | 16,326                |
|   |                                   |           | <u>164,449</u>        |
| Total                                       |                                   |           | <u><u>518,477</u></u> |

| <b>30 June<br/>2019</b> | 31 December<br>2018 |
|-------------------------|---------------------|
| <i>HK\$'000</i>         | <i>HK\$'000</i>     |
| <b>(Unaudited)</b>      | (Audited)           |

Analysed into:

Bank loans and other borrowings payable:

|  |                |         |
|--|----------------|---------|
| Within one year or on demand           | <b>315,775</b> | 354,028 |
| In the second year                     | <b>32,847</b>  | 55,044  |
| In the third to fifth years, inclusive | <b>74,571</b>  | 107,696 |
| Beyond five years                      | <b>21,973</b>  | 1,709   |
|  | <b>445,166</b> | 518,477 |

Interest-bearing bank and other borrowings are denominated in:

|      | <b>30 June<br/>2019</b> | 31 December<br>2018 |
|------|-------------------------|---------------------|
|      | <i>HK\$'000</i>         | <i>HK\$'000</i>     |
|      | <b>(Unaudited)</b>      | (Audited)           |
| HK\$ | <b>204,525</b>          | 253,128             |
| RMB  | <b>230,006</b>          | 254,593             |
| JPY  | <b>3,503</b>            | 3,624               |
| US\$ | <b>7,132</b>            | 7,132               |
|      | <b>445,166</b>          | 518,477             |

- (a) HK Interpretation 5 “Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause” requires that a loan which includes a clause that gives the lender the unconditional right to call the loan at any time (“**repayment on demand clause**”) shall be classified in total by the borrower as current in the condensed consolidated statements of financial position. Interest-bearing bank loans of the Group in the amount of HK\$212,155,000 (31 December 2018: HK\$206,025,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$82,060,000 (31 December 2018: HK\$53,154,000) that is repayable after one year from the end of the Reporting Period has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.
- (b) As at 30 June 2019, the Group’s bank loans amounting to approximately HK\$188,111,000 (31 December 2018: HK\$54,715,000) were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since they all included the repayment on demand clause and have already been classified as current liabilities as mentioned in above (a).
- (c) As at 30 June 2019, the Group’s bank facilities including overdraft amounting to HK\$625,252,000 (31 December 2018: HK\$534,084,000) of which HK\$445,166,000 (31 December 2018: HK\$494,355,000) had been utilised.

(d) The following assets were pledged as securities for interest-bearing bank and other borrowings:

|   | <b>Carrying value</b>                                |  |
|---|--|--|
|   | <b>30 June<br/>2019<br/>HK\$'000<br/>(Unaudited)</b> | 31 December<br>2018<br>HK\$'000<br>(Audited) |
| Property, plant and equipment                         | <b>162,012</b>                                       | 169,617                                      |
| Right-of-use assets                                   | <b>30,117</b>  | –  |
| Prepaid land lease payments                           | –  | 24,916                                       |
| Financial assets at fair value through profit or loss | <b>10,831</b>  | 10,741                                       |
| Inventories   | <b>19,270</b>  | 40,317                                       |
| Trade and bills receivables                           | <b>48,052</b>  | 92,693                                       |
| Pledged bank deposits                                 | <b>9,000</b>   | 9,000  |
|   | <b>279,282</b>                                       | 347,284                                      |

## 15. SHARE CAPITAL

|  | <b>30 June<br/>2019<br/>HK\$'000</b> | 31 December<br>2018<br>HK\$'000 |
|--|--------------------------------------|---------------------------------|
| Authorised:  |                                      |                                 |
| 50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each                                 | <b>38,750,000</b>                    | 38,750,000                      |
| Issued and fully paid:   |                                      |                                 |
| 247,717,920 (31 December 2018: 247,717,920)<br>ordinary shares of US\$0.1 (HK\$0.775) each | <b>191,981</b>                       | 191,981                         |

A summary of movements in the Company's share capital is as follows:

|  | <b>Number of<br/>shares<br/>in issue</b> | <b>Share<br/>capital<br/>HK\$'000</b> | <b>Share<br/>premium<br/>account<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
|--|--|---------------------------------------|---|---------------------------|
| At 31 December 2018 and 1 January 2019     | <u>247,717,920</u>                       | <u>191,981</u>                        | <u>206,811</u>                                    | <u>398,792</u>            |
| Vesting of Share Award Scheme (note 16(b)) | <u>–</u>                                 | <u>–</u>                              | <u>81</u>   | <u>81</u>                 |
| At 30 June 2019                            | <u>247,717,920</u>                       | <u>191,981</u>                        | <u>206,892</u>                                    | <u>398,873</u>            |

## 16. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME

### (a) Share option scheme

The Company operates a share option scheme (the “**Option Scheme**”) for the purpose to recognise and acknowledge the contributions that the eligible participants of the Option Scheme had or may have made to the Company. Eligible participants of the Option Scheme include any full-time or part-time employees, executives or officers of the Company and its subsidiaries, directors (including independent non-executive directors) of the Company and its subsidiaries and advisers, consultants, supplier, customers, distributors and other persons upon the terms set out in the Option Scheme (the “**Eligible Option Participants**”). The Option Scheme was adopted pursuant to the resolutions of the Company’s shareholders passed on 12 June 2015 (the “**Adoption Date**”) and shall be valid and effective for a period of 10 years commencing on the Adoption Date.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the Listing Date (i.e., 22,500,000 shares) unless the Company obtains approval from its shareholders in general meeting and/or such other requirements prescribe under the Listing Rules and must not exceed 30% of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company’s shares in issue, unless approval of the Company’s shareholders in general meeting and/or such other requirements prescribe under the Listing Rules is obtained.

The amount payable by the grantee on application or acceptance of an option shall be HK\$1.00. The period within which the shares must be taken up under an option shall be determined by the Board at its absolute discretion and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Option Scheme.

The subscription price in respect of each share issued pursuant to the exercise of an option granted under the Option Scheme shall be determined by the Board and shall not be less than the highest of: (a) the official closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheet on the date of grant, which must be a day on which the Stock Exchange is open for business of dealing in securities; (b) the average of the official closing prices of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a share. The Option Scheme does not contain any provision of minimum period for which an option must be held before it can be exercised unless otherwise determined by the Board and specified in the offer letter at the time of offer.

On 9 May 2019, the Board has resolved to grant share options to certain Directors and employees of the Company, entitling them to subscribe for a total of 6,376,000 ordinary shares of the Company.

Details of the share option expenses of the Group during the six months ended 30 June 2019 is listed as below:

|  | <b>Six months<br/>ended 30 June<br/>2019<br/>HK\$<br/>(Unaudited)</b> |
|--|---|
| Share option expenses recognised during the period | <u>797</u>  |
| Less: Included in directors’ remuneration          | <u>(725)</u>  |
| Employee benefit expenses                          | <u>72</u>   |

The following share options were outstanding under the Scheme during the Reporting Period:

|                           | <b>Six months ended 30 June 2019</b>  |   |
|---------------------------|---|---|
|                           | <b>Weighted<br/>average<br/>exercise<br/>price<br/>HK\$<br/>(Unaudited)</b> | <b>Number of<br/>options<br/>'000<br/>(Unaudited)</b> |
| At 1 January              | –   | –   |
| Granted during the period | <b>2.4</b>  | <b>6,376</b>  |
| At 30 June                | <b>2.4</b>  | <b>6,376</b>  |

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

### 30 June 2019

| Number of options | Exercise price* | Exercise period  |
|-------------------|-----------------|--|
| 6,376,000         | HK\$2.4         | (i) 2,975,500 Options granted will be vested on 10 May 2020;     |
|                   |                 | (ii) 2,975,500 Options granted will be vested on 10 May 2021;    |
|                   |                 | (iii) 212,500 Options granted will be vested on 10 May 2022; and |
|                   |                 | (iv) 212,500 Options granted will be vested on 10 May 2023.      |

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was HK\$7,893,000 of which the Group recognised a share option expense of HK\$797,000 during the period ended 30 June 2019.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

|   | <b>30 June 2019</b> |
|---|---------------------|
| Dividend yield (%)                            | 0.00                |
| Expected volatility (%)                       | 44.38               |
| Historical volatility (%)                     | 44.38               |
| Risk-free interest rate (%)                   | 2.24                |
| Expected life of options (year)               | 10                  |
| Weighted average share price (HK\$ per share) | <b>2.4</b>          |

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the Reporting Period and at the date of approval of these financial statements, the Company had 6,376,000 share options outstanding under the Scheme, which represented approximately 2.6% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,376,000 additional ordinary shares of the Company and additional equity amount of HK\$15,302,400 (before issue expenses).

**(b) Shares held for the share award scheme**

The Board has adopted a Share Award Scheme on 22 February 2016 (the "**Award Scheme**") in which any employee and non-executive director of the Company and/or any member of the Group who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any member of the Group (the "**Eligible Award Participants**") will be entitled to participate. The purposes of the Award Scheme are:

1. to recognise and motivate the contributions by certain Eligible Award Participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;
2. to attract suitable personnel for further development of the Group; and
3. to provide certain Eligible Award Participants with a direct economic interest in attaining a long-term relationship between the Group and certain Eligible Award Participants.

The Group has set up a trust (the "**Share Award Scheme Trust**") for the purpose of administering the Share Award Scheme. The Share Award Scheme Trust will acquire the Company's shares from the Stock Exchange, with a maximum number determined by the Board, and hold the shares granted to the employees but not vested for the employees until they are vested. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date. The Board has further resolved in February 2016 that a sum of HK\$10,000,000 be provided for the purchase of the Shares to be awarded to the Eligible Award Participants to be selected by the Board. As at 30 June 2019, the Share Award Scheme Trust holds 2,206,000 (31 December 2018: 2,496,000) shares of the Company. During the six months ended 30 June 2019, no share was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 290,000 shares were vested on 16 June 2019.

On 16 June 2017 (the "**Date of Grant**"), the board of the directors of the Company resolved to grant share awards in respect of a total of 2,050,000 shares (the "**Award Shares**") to 18 persons who are Eligible Award Participants. Details of the grant of Award Shares pursuant to the Award Scheme have been set out in the Company's announcement dated 16 June 2017.

Two of the Eligible Award Participants, who were granted Award Shares on 16 June 2017, have resigned during the year ended 31 December 2018, and therefore their 300,000 shares of Award Shares were forfeited.

Two of the Eligible Award Participants, who were granted Award Shares on 16 June 2017, have resigned during the year ended 30 June 2019, and therefore their 210,000 shares of Award Shares were forfeited.

Summary of particulars of the Award Shares granted is as follows:

| Date of Grant | Number of outstanding Awarded Shares as at 1 January 2019 | Fair value<br>HK\$'000 | Vesting Date | Number of Awarded Shares         |                                     |                                |
|---------------|---|------------------------|--------------|----------------------------------|-------------------------------------|--------------------------------|
|               |   |                        |              | Vested during the current period | Forfeited during the current period | Outstanding as at 30 June 2019 |
| 16 June 2017  | 350,000   | 1,305                  | 16 June 2019 | (290,000)                        | (60,000)                            | –                              |
| 16 June 2017  | 350,000   | 1,305                  | 16 June 2020 | –                                | (60,000)                            | 290,000                        |
| 16 June 2017  | 350,000   | 1,305                  | 16 June 2021 | –                                | (60,000)                            | 290,000                        |
| 16 June 2017  | 175,000   | 653                    | 16 June 2022 | –                                | (30,000)                            | 145,000                        |
|               | <u>1,225,000</u>  | <u>4,568</u>           |              | <u>(290,000)</u>                 | <u>(210,000)</u>                    | <u>725,000</u>                 |

Details of the equity-settled share award expenses of the Group during the six months ended 30 June 2019 is listed as below:

|   | Six months ended 30 June        |                                 |
|---|---------------------------------|---------------------------------|
|   | 2019<br>HK\$'000<br>(Unaudited) | 2018<br>HK\$'000<br>(Unaudited) |
| Gross amount of recognition share award expenses      | 741                             | 1,947                           |
| Forfeited during the period                           | <u>(535)</u>                    | <u>(611)</u>                    |
| Net share award expenses recognised during the period | <u>206</u>                      | <u>1,336</u>                    |
| Less: Included in directors' remuneration             | <u>(296)</u>                    | <u>(731)</u>                    |
| Employee benefit expenses                             | <u>(90)</u>                     | <u>605</u>                      |

## 17. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following transactions with related parties during the Reporting Period:

(a) Names of the Group's principal related parties and their relationship with the Group

| Name of related parties  | Relationship                                       |
|--|--|
| Mr. Chan Yu Ling, Abraham (“ <b>Mr. Abraham Chan</b> ”)                          | Director of the Company                            |
| Mr. Chan Kin Man, Eddie (“ <b>Mr. Eddie Chan</b> ”)                              | Director of the Company                            |
| Edtoma Corporate Services Limited (“ <b>Edtoma</b> ”)                            | Company significantly influenced by Mr. Eddie Chan |
| CWCC Consultancy Limited (“ <b>CWCC</b> ”)                                       | Company significantly influenced by Mr. Eddie Chan |
| Golden Sparkle Plantation Holding Limited (“ <b>Golden Sparkle Plantation</b> ”) | Company controlled by Mr. Abraham Chan             |

(b) Significant related party transactions during the Reporting Period are as follows:

|                                |             | <b>Six months ended 30 June</b> |                 |
|--------------------------------|-------------|---------------------------------|-----------------|
|                                |             | <b>2019</b>                     | 2018            |
|                                |             | <i>HK\$'000</i>                 | <i>HK\$'000</i> |
|                                |             | <b>(Unaudited)</b>              | (Unaudited)     |
| Loans from a director          | <i>(i)</i>  | <b>15,000</b>                   | 50,000          |
| Interest expense to a director | <i>(i)</i>  | <b>686</b>                      | 348             |
| Professional service fees      | <i>(ii)</i> | <b>266</b>                      | 175             |

*Notes:*

- (i) On 14 March 2018, the Group entered into a loan agreement with Mr. Abraham Chan, in which Mr. Abraham Chan agreed to make loan facility up to HK\$50 million to the Group for financing the general corporate funding requirements. During the period ended 30 June 2019, the Group drew down HK\$15 million for such facility. The interest expense in relation to the aforesaid loans from to a director was accrued at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to loans offered by the banks to the Group.
- (ii) The professional service fees were paid to Edtoma and CWCC, over which Mr. Eddie Chan has significant influence, under a price mutually agreed by both parties. The Directors consider that the service charges offered by the supplier were in line with its other suppliers.

(c) Outstanding balances with related parties:

|                              | <b>30 June 2019</b> |   | 31 December 2018 |   |
|------------------------------|---------------------|---|------------------|---|
|                              | <i>HK\$'000</i>     | <b>Maximum<br/>amount<br/>outstanding<br/><i>HK\$'000</i></b> | <i>HK\$'000</i>  | <b>Maximum<br/>amount<br/>outstanding<br/><i>HK\$'000</i></b> |
|                              | <b>(Unaudited)</b>  | <b>(Unaudited)</b>  | (Audited)        | (Audited)   |
| <b>Loans from a director</b> |                     |   |                  |   |
| Mr. Abraham Chan             | <b>45,000</b>       | <b>45,000</b>   | 30,000           | 50,000  |

The loans from a director is unsecured, repayable on demand and bears interest at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to those offered by the banks to the Group.

(d) Compensation of key management personnel of the Group:

|   |  | <b>Six months ended 30 June</b> |                 |
|---|--|---------------------------------|-----------------|
|   |  | <b>2019</b>                     | 2018            |
|   |  | <i>HK\$'000</i>                 | <i>HK\$'000</i> |
|   |  | <b>(Unaudited)</b>              | (Unaudited)     |
| Fees  |  | –                               | –               |
| Other emoluments:                               |  |                                 |                 |
| Salaries, allowances and benefits in kind       |  | <b>2,139</b>                    | 2,239           |
| Pension scheme contributions                    |  | <b>27</b>                       | 27              |
| Share option expense (note 16(a))               |  | <b>725</b>                      | –               |
| Equity-settled share award expense (note 16(b)) |  | <b>296</b>                      | 731             |
|   |  | <b>3,187</b>                    | 2,997           |



## **18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

The Group's financial assets include financial assets at fair value through profit or loss and loans and receivables which comprise financial assets at fair value through profit or loss, cash and cash equivalents, pledged deposits, trade receivables and financial assets included in prepayments, deposits and other receivables. The Group's financial liabilities include financial liabilities at amortised cost which comprise trade and bills payables, financial liabilities included in other payables and accruals and interest-bearing bank and other borrowings.

Management has assessed that:

- (a) The fair value of the financial assets at fair value through profit or loss has been estimated based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data; and
- (b) The fair values of the Group's financial assets classified as loans and receivables and financial liabilities were approximate to their carrying amounts largely due to the short term maturities of these instruments.

There were no transfers of fair value measurements during the six months ended 30 June 2019.

## **19. EVENTS AFTER THE REPORTING PERIOD**

On 12 June 2019, the Loan Capitalisation Agreement was entered into between the Company and Mr. Abraham Chan, pursuant to which the Company as issuer conditionally agreed to allot and issue and Mr. Abraham Chan as the subscriber conditionally agreed to subscribe for 15,544,041 new Capitalisation Shares at the Issue Price of HK\$1.93 per Capitalisation Share for capitalising HK\$30,000,000 from the outstanding principal amount of the Shareholder's Loan of HK\$45,000,000. The transaction has been approved by an extraordinary general meeting of the Company on 8 August 2019 and is expected to result in an addition of share capital and share premium by HK\$12,047,000 and HK\$17,953,000 respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PROSPECTS

The Group reported a net loss of HK\$45.2 million for the six months ended 30 June 2019. This compares to a net profit of HK\$13.3 million for the same period in 2018.

Total revenue decreased by HK\$53 million which were attributed by a decrease in revenue of the China CCMG business of HK\$32.1 million and the plantation business of HK\$27.6 million.

The drop in sales in the China CCMG business was due to a structural revamp of the business strategy in China. Since the beginning of 2019, we have raised the prices of our CCMG products in China and have successfully negotiated a higher trade margin with certain of our distributors. The adjustments have also delineated some unprofitable distributors and have resulted in a temporary loss of sales. However, this structural revamp in pricing and business strategy is considered a necessary and fundamental move to improve the overall margin of our CCMG business in China in the long term. Sales in the main regions of China remains strong and actual sales at major hospitals was not affected by the price increment significantly. Further price adjustment will continue throughout 2019 and extend to all distributors and hospitals to further improve the trade margin of the CCMG business.

Nong's remains the dominant player in the Hong Kong CCMG market and business remains strong and stable. Despite the high market share of Nong's CCMG in Hong Kong, we still see a good growth potential in the private clinics segment. We are now further increasing our sales to private clinics by enhancing our sales team and increased marketing activities.

The Clinic business has a 14.9% growth over the same period last year despite the economic turmoil in Hong Kong. We are also making progress in the rationalising and improving the profitability of the clinics.

The decrease in sales revenue of the plantation business is due to the different growing and harvesting periods of the herbs and rendered the selling of products seasonal. The seasonal fluctuation of sales pattern will stabilise once the plantation business enters into a more mature business cycle.

The Chinese healthcare products segment which comprises the Hong Kong, Japan and U.S. markets remains stable with sale revenue matching that of the same period of 2018.

The trade frictions and the geopolitical tensions are expected to continue to affect the Hong Kong economy and the consuming power of patients and customers.

The protests in Hong Kong affected patients visits to clinics in both June and July. The retail sales of our OTC products was also affected. However, we believe the effect is temporary and the demand of health care products and services continues to remain strong.

The China CCMG business continues to be challenging with keen price competition. Instead of competing on prices, we have introduced our “farm to clinic” concept which is well accepted by our customers and has greatly raised the profile of our Nong’s brand.

Our revamped sales and pricing strategy of our CCMG business will continue and is on track to further increase the profit of the segment.

In an extraordinary general meeting held recently on 8 August, 2019, I am pleased that the independent shareholders have approved the capitalisation of the shareholder’s loan of HK\$30 million. This loan capitalisation will allow the Company to reduce its financial costs and settle its indebtedness while reducing the gearing level of the Group and strengthening the financial position of the Group.

We believe in our future. We believe the steps we are taking will enable us to be a prominent and successful player in Chinese medicine products and services. We will continue to be the pioneer in modernising Chinese Medicine through our innovation and conviction.

## FINANCIAL REVIEW

### Sales performance by segment

|                             | Six months ended 30 June |               | 2018     |               | Change<br>% |
|-----------------------------|--------------------------|---------------|----------|---------------|-------------|
|                             | 2019                     | % of<br>total | 2018     | % of<br>total |             |
|                             | HK\$'000                 |               | HK\$'000 |               |             |
| China CCMG                  | 133,982                  | 40.2%         | 166,107  | 43.0%         | (19.3%)     |
| Hong Kong CCMG              | 83,851                   | 25.1%         | 83,793   | 21.7%         | 0.1%        |
| Chinese Healthcare products | 48,508                   | 14.5%         | 48,555   | 12.6%         | (0.1%)      |
| Nong’s® (農本方®)              |                          |               |          |               |             |
| Chinese medicine clinics    | 51,664                   | 15.5%         | 44,980   | 11.6%         | 14.9%       |
| Plantation                  | 15,553                   | 4.7%          | 43,169   | 11.1%         | (64.0%)     |
| Total                       | 333,558                  | 100.0%        | 386,604  | 100.0%        | (13.7%)     |

#### China CCMG

For the six months ended 30 June 2019, the sales of CCMG in China was HK\$134.0 million, representing an decrease of HK\$32.1 million or 19.3% compared to HK\$166.1 million for the corresponding period in last year. The decrease was mainly attributed to the decrease in sales quantity, especially the distributorship sales.

The sales of the Group’s China CCMG segment through distributorship was relatively high in the last correspondence period, which was benefited from a temporary growth resulting from the revamped sales strategy of the Group in 2017. In addition, during the six months period ended 30 June 2019, the Group has restructured it’s sales team and structural price revamp in China for CCMG segment, and this led to a slowdown of the business development during the transitional period.

## *HK CCMG*

The Group continued to maintain its leading market position in Hong Kong and sell its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the six months ended 30 June 2019, the direct sales of CCMG products in Hong Kong was HK\$83.9 million, representing a slightly increase of 0.1% compared with the corresponding period in last year.

The supply contract with Hong Kong Hospital Authority (“**HKHA**”) expired in March 2018. The decline in sales to HKHA was partially offset by the increase in sales to private Chinese medicine practitioners. During the six months ended 30 June 2019, the Group remained as a CCMG supplier to the major non-profit organisations in Hong Kong, and continued to expand its customer base in private Chinese medicine practitioners sector. As a result, the Group’s sales to private Chinese medicine practitioners recorded a growth of 7.8% and accounted for more than 50% of the Group’s HK CCMG segment revenue.

### *Nong’s® (農本方®) Chinese medicine clinics*

During the six months ended 30 June 2019, the sales of CCMG products and provision of Chinese medical diagnostic services from the Group’s Nong’s® (農本方®) Chinese medicine clinics generated revenue of HK\$51.7 million in aggregate, representing an increase of HK\$6.7 million or 14.9% compared to HK\$45.0 million for the corresponding period in last year, which was mainly attributable to increase in the number of patient visits to clinics.

During the six months ended 30 June 2019, the Group continued to reassess the performance of the existing clinic network in Hong Kong and discontinued the operation of the under-performing clinics. The Group will further optimise the clinic network in Hong Kong and enhance its profitability by discontinuing the operation of those under-performing clinics and replace them by new clinics in a more promising location with higher potential. The Group continues to be the largest TCM clinic chain in Hong Kong and operating 64 clinics as at 30 June 2019.

As at 30 June 2019, the Group was operating two Nong’s® (農本方®) Chinese medicine clinics, under the Mainland and Hong Kong Closer Economic Partnership Arrangement (“**CEPA**”) in China. The two clinics were located in Nanning, Guangxi Zhuang Autonomous Region and Shanghai, respectively.

## Chinese healthcare products

### Sales by regions

|           | Six months ended 30 June    |               |                             |               |
|-----------|-----------------------------|---------------|-----------------------------|---------------|
|           | 2019<br>Revenue<br>HK\$'000 | % of total    | 2018<br>Revenue<br>HK\$'000 | % of total    |
| U.S.      | 17,999                      | 37.1%         | 17,670                      | 36.4%         |
| Japan     | 5,100                       | 10.5%         | 4,715                       | 9.7%          |
| Hong Kong | 25,409                      | 52.4%         | 26,170                      | 53.9%         |
|           | <u>48,508</u>               | <u>100.0%</u> | <u>48,555</u>               | <u>100.0%</u> |

During the six months ended 30 June 2019, revenue from sales of Chinese healthcare products in U.S., Japan and Hong Kong markets was HK\$48.5 million in aggregate, remained stable as the correspondence period in last year. The social issues in Hong Kong starting from June 2019 affected the retail market in Hong Kong, and our sales of Chinese healthcare products in Hong Kong also being impacted and able to maintain a stable sales as comparing to the correspondence period in last year.

### Plantation

For the six months ended 30 June 2019, the upstream plantation segment contributed HK\$15.6 million to the Group's overall revenue, less than the corresponding period in last year of HK\$43.2 million by HK\$27.6 million or 63.9%. The revenue from the plantation segment was mainly derived from the plantation and trading of raw Chinese herbs. The decrease in revenue from the plantation segment was mainly attributable to the different product mix in relation to the types of Chinese herbs products sold by the Group during the six months ended 30 June 2019 comparing to the last corresponding period, which has different market demand.

### Profitability

|                     | Six months ended 30 June |                  | Growth Rate |
|---------------------|--------------------------|------------------|-------------|
|                     | 2019<br>HK\$'000         | 2018<br>HK\$'000 |             |
| Revenue             | 333,558                  | 386,604          | (13.7%)     |
| Cost of sales       | <u>(140,112)</u>         | <u>(150,293)</u> | (6.8%)      |
| Gross profit        | <u>193,446</u>           | <u>236,311</u>   | (18.1%)     |
| Gross profit margin | <u>58.0%</u>             | <u>61.1%</u>     |             |

The Group's gross profit margin for the six months ended 30 June 2019 was 58.0%, representing a decrease of 3.1% compared to 61.1% in last year. The Group has raised the price of the CCMG products in China during the period. The decrease in gross profit margin was mainly attributable to (i) decrease in the Group's CCMG distributorship sales in China, which has a relatively high gross profit margin, and (ii) increase in the cost of sales resulted from the increase in unit production cost.

### **Other income and gains**

The Group's other income and gains mainly comprised of government grants, gain from sale of equipment and accessories, fair value gain on biological assets and financial assets at fair value through profit or loss and interest income. For the six months ended 30 June 2019, the Group's other income and gain was HK\$6.7 million, representing an decrease of HK\$8.8 million or 56.8% compared to HK\$15.5 million for the corresponding period in last year. The decrease was mainly attributable to (i) decrease in Government grant received during the period, that there was an one-off government grant of HK\$6.9 million received in Guizhou to reward the Group's investment in poverty area in last correspondence period, but no such Government grant received in the six months ended 30 June 2019; and (ii) fair value gain on biological assets of HK\$3.4 million was recorded in last correspondence period, but fair value loss on biological assets of HK\$0.9 million was recorded in the six months ended 30 June 2019.

### **Selling and distribution expenses**

The Group's selling and distribution expenses were mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses, and sales and marketing departmental expenses. For the six months ended 30 June 2019, the Group's selling and distribution expenses was HK\$115.9 million, representing an decrease of HK\$0.1 million or 0.1% compared to HK\$116.0 million for the corresponding period in last year.

Despite Group's China CCMG sales declined in the six months ended 30 June 2019, the Group sales and marketing expenses in China market remained stable as the correspondence period in last year. The Group continued to devote more marketing resources in China to increase the brand awareness and competitiveness of its CCMG products in China market.

For the six months ended 30 June 2019, selling and distribution expenses as a percentage to revenue record an increase to 34.7%, as compared to 30.0% for the corresponding period in last year.

## Administrative expenses

|                                 | Six month ended 30 June |                  | Change     |                |
|---------------------------------|-------------------------|------------------|------------|----------------|
|                                 | 2019<br>HK\$'000        | 2018<br>HK\$'000 | HK\$'000   | %              |
| Clinics operating expenses      | 42,113                  | 37,062           | 5,051      | 13.6           |
| General administrative expenses | 63,594                  | 68,650           | (5,056)    | (7.4)          |
| Total administrative expenses   | <u>105,707</u>          | <u>105,712</u>   | <u>(5)</u> | <u>(0.005)</u> |

The Group's administrative expenses included both operating expenses for clinics and general administrative expenses. The expenses were mainly comprised of staff costs, research and development costs, office and clinics rental expenses, legal and professional fees, clinic management fee, depreciation and amortisation, and other general administrative expenses.

For the six months ended 30 June 2019, the Group's operating expenses for clinics was HK\$42.1 million, representing an increase of HK\$5.1 million or 13.6% compared to HK\$37.1 million for the correspondence period in last year. The increase was mainly attributable to (i) increase in clinic management fee and rental expenses, which was incidental to the increased revenue from clinic segment; and (ii) increase in clinic operating expenses in China due to the commencement of full operation of the Group's Shanghai Clinic during the six months ended 30 June 2019.

On the other hand, the Group's general administrative expenses during the six months ended 30 June 2019 was decreased by HK\$5.1 million or 7.4% compared to the correspondence period in last year. Such decline was mainly attributable to the decrease in an one-off expenses of HK\$6.5 million as consulting fee and personnel restructuring expenses recorded for the correspondence period in last year.

## Other expenses

The Group's other expenses mainly comprised of loss on disposal of fixed assets, net fair value loss on biological assets, net foreign exchange loss and voluntary charity donation. The increase was primarily attributable to the increase in loss on fixed assets result from discontinuation of operation of the under-performing clinics in Hong Kong and Canada during the six months ended 30 June 2019. Also, there was a net fair value loss on biological assets, whereas it was a gain for the correspondence period in last year.

## Finance costs

For the six months ended 30 June 2019, the Group's finance costs amounted to HK\$13.5 million, representing an increase of HK\$2.4 million or 21.9% as compared to HK\$11.1 million for the corresponding period in last year. The increase was mainly due to the increase in interest expenses on lease liabilities of HK\$2.7 million resulted from the adoption of HKFRS 16, no such interest expense was recorded in the correspondence period in last year.

## **Income tax expense**

Despite the loss before tax during the six months ended 30 June 2019, the Group's income tax expenses remained stable at about HK\$2.4 million was mainly due to the increase in unrecognised tax loss resulted from clinic and plantation segments. The income tax expense was arose from the profitable subsidiaries.

## **Loss for the period**

The Group's net loss for the six months ended 30 June 2019 was HK\$45.2 million whereas the Group's net profit was HK\$13.3 million for the corresponding period in last year. The loss was primarily attributable to:

- (i) decrease in the sales of the Group's China CCMG segment and Plantation segment mentioned above;
- (ii) decrease in Government grant received for the six months ended 30 June 2019 while the Company received approximately HK\$6.9 million an one-off Government grant in the last corresponding period; and
- (iii) fair value loss on biological assets of HK\$0.9 million was recognised for the six months ended 30 June 2019, whereas a gain of HK\$3.4 million was recognised for the corresponding period in last year.

## **CAPITAL EXPENDITURES**

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. During the six months ended 30 June 2019, the total capital expenditure was HK\$39.1 million (six months ended 30 June 2018: HK\$33.8 million). The capital expenditures during the period under review were mainly incurred for (i) acquisition of the land use rights in Guizhou for existing TCM Plantation centre, (ii) acquisition of production equipment and enhancement of existing production line, and (iii) renovation of new Nong's<sup>®</sup> (農本方<sup>®</sup>) Chinese medicine clinics in Hong Kong.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2019, the Group had net current liabilities of HK\$17.7 million (31 December 2018: net current asset of HK\$131.5 million), which included cash and cash equivalent of HK\$57.4 million (31 December 2018: HK\$104.9 million), interest-bearing bank and other borrowings amounting to HK\$315.8 million (31 December 2018: HK\$354.0 million) and loan from a director amounting to HK\$45 million (31 December 2018: 30 million). As at 30 June 2019, the Group's unused bank facilities including overdraft amounted to HK\$180.1 million (31 December 2018: HK\$39.7 million).



## GEARING RATIO

As at 30 June 2019, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank and other borrowings, and loan from a director by total equity was 0.95 (31 December 2018: 1.0). The decrease in bank borrowings was partially offset by the loss for the period under review.

## EXCHANGE RISK

The Group conducts business primarily in Hong Kong and China with most of its transactions denominated and settled in Hong Kong dollars and Renminbi. Currently, the Group has not entered into any foreign exchange contracts to hedge against the fluctuations in exchange rate between Renminbi and Hong Kong dollars. However, the Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

## HUMAN RESOURCES

As at 30 June 2019, the Group had a total of 590 employees (31 December 2018: 641 employees). During the six months ended 30 June 2019, total staff costs excluding Directors' remuneration was HK\$56.3 million (six months ended 30 June 2018: HK\$56.3 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.

## PLEDGE OF ASSETS

The following assets were pledged as securities for interest-bearing bank and other borrowings:

|   | Carrying value              |                                 |
|---|-----------------------------|---------------------------------|
|   | 30 June<br>2019<br>HK\$'000 | 31 December<br>2018<br>HK\$'000 |
| Property, plant and equipment                         | 162,012                     | 169,617                         |
| Right-of-use assets                                   | 30,117                      | –                               |
| Prepaid land lease payments                           | –                           | 24,916                          |
| Financial assets at fair value through profit or loss | 10,831                      | 10,741                          |
| Inventories   | 19,270                      | 40,317                          |
| Trade and bills receivables                           | 48,052                      | 92,693                          |
| Pledged bank deposits                                 | 9,000                       | 9,000                           |
|   | <u>279,282</u>              | <u>347,284</u>                  |

## CAPITAL COMMITMENT

|                                   | <b>30 June<br/>2019<br/>HK\$'000</b> | 31 December<br>2018<br>HK\$'000 |
|-----------------------------------|--------------------------------------|---------------------------------|
| Contracted, but not provided for: |                                      |                                 |
| Land and buildings                | 27,032                               | 30,119                          |
| Plant and machinery               | 7,656                                | 20,478                          |
|                                   | <u>34,688</u>                        | <u>50,597</u>                   |

## MATERIAL ACQUISITIONS, DISPOSALS AND MATERIAL INVESTMENT

There were no material acquisitions, disposals and material investment of the Group for the six months ended 30 June 2019.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2019.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK\$288.4 million. As at 30 June 2019, the Group had utilised approximately HK\$272.6 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, details of which are set out as follows:

| Use   | Approximate<br>amount of net<br>proceeds<br><i>(in HK\$ million)</i> | Approximate<br>percentage of<br>net proceeds | Approximate<br>amount<br>utilized<br><i>(in HK\$ million)</i> | Approximate<br>amount<br>unutilized<br><i>(in HK\$ million)</i> |
|---|--|--|---|---|
| To expand manufacturing facilities and enhance existing production lines            | 86.5   | 30.0%  | 86.5  | –   |
| To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC          | 72.1   | 25.0%  | 72.1  | –   |
| To expand distribution network into new target cities in the PRC                    | 57.7   | 20.0%  | 57.7  | –   |
| To fund the development and launch of two new proprietary Chinese medicine products | 43.3   | 15.0%  | 27.5  | 15.8  |
| Additional working capital of the Group   | 28.8   | 10.0%  | 28.8  | –   |
|   | <u>288.4</u>   | <u>100.0%</u>                                | <u>272.6</u>  | <u>15.8</u>   |

The unutilised net proceeds of HK\$15.8 million have been placed with licensed banks in Hong Kong and will be applied in the manner consistent with the proposed allocations as set out in the Company's listing prospectus.

## **CORPORATE GOVERNANCE**

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

The Company has adopted the code provisions stated in the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 2019, save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

Pursuant to provision A.2.1 of the Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. However, due to the nature and extent of the Group's operations and Mr. Abraham Chan's in-depth knowledge and experience in Chinese medicine and healthcare products and his familiarity with the operations of the Group, the Company considers that it is not preferable to find an alternative candidate to replace Mr. Abraham Chan and serve in either of the positions at this stage. As such, the role of the chairman and chief executive officer of the Company are not being separated pursuant to the requirement under A.2.1 of the Code.

For the six months ended 30 June 2019, the Directors were not aware of any business or interest of the Directors, the controlling shareholders, and their respective close associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

A deed of non-competition dated 16 June 2015 was entered into by the controlling shareholders in favour of the Company (for itself and as trustee for its subsidiaries), details of which are set out in the section headed "Relationship with our Controlling Shareholders" of the prospectus of the Company dated 25 June 2015.

## **AUDIT COMMITTEE**

The Company established an audit committee (the "**Audit Committee**") on 12 June 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Code. The Audit Committee consists of three independent non-executive Directors, Mr. Ho Kwok Wah, George (being the chairman of the Audit Committee who has a professional qualification in accountancy), Dr. Leung Lim Kin, Simon and Dr. Chan Kin Keung, Eugene. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the Group's policies and to perform other duties and responsibilities as assigned by our Board. The Audit Committee discussed the accounting principles and policies adopted by the Group together with the management and the external auditors.

## **REVIEW OF THE INTERIM RESULTS**

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 has been reviewed by the auditors of the Company in accordance with Hong Kong Standard on Review Engagements 2410 — “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The interim report of the Group for the six months ended 30 June 2019 has also been reviewed and passed by the Audit Committee.

## **THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. All Directors confirmed that, having made specific enquiries of all Directors, they have complied with the required standard of dealing as set out in the Model Code throughout the six months ended 30 June 2019.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities throughout the six months ended 30 June 2019.

## **IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD**

On 8 August 2019, an extraordinary general meeting (the “EGM”) was held for, among other things, approving the Loan Capitalisation and issue of the Capitalisation Shares under specific mandate. All resolutions proposed at the EGM were passed as ordinary resolutions. As such, the Company would pursuant to the Loan Capitalisation Agreement issue a total of 15,544,041 Capitalisation Shares to Mr. Abraham Chan.

Save as disclosed above, there were no significant event affecting the Company nor any of its subsidiaries after the end of the reporting period requiring disclosure in this announcement.

## **INTERIM DIVIDEND**

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2019.

## **PUBLICATION OF INTERIM REPORT**

The interim report of the Company for the six months ended 30 June 2019 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available for review on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.purapharm.com](http://www.purapharm.com) in due course.

By Order of the Board  
**PuraPharm Corporation Limited**  
**Chan Yu Ling, Abraham**  
*Chairman*

Hong Kong, 27 August 2019

*As at the date of this announcement, the executive directors of the Company are Mr. Chan Yu Ling, Abraham, Dr. Tsoi Kam Biu, Alvin, Mr. Chan Kin Man, Eddie and Ms. Man Yee Wai, Viola; the non-executive director of the Company is Mr. Chow, Stanley; and the independent non-executive directors of the Company are Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee.*