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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 2020**

	Six months ended 30 June					
	2020		2019		Change	
	Revenue HK\$'000	% of total	Revenue HK\$'000	% of total	HK\$'000	%
China CCMG	121,498	43.3%	133,982	40.2%	(12,484)	(9.3)
Hong Kong CCMG	68,311	24.4%	83,851	25.1%	(15,540)	(18.5)
Chinese healthcare products	45,097	16.1%	48,508	14.5%	(3,411)	(7.0)
Nong's® (農本方®) Chinese medicine clinics	23,989	8.5%	51,664	15.5%	(27,675)	(53.6)
Plantation	21,537	7.7%	15,553	4.7%	5,984	38.5
Total	<u>280,432</u>	<u>100.0%</u>	<u>333,558</u>	<u>100.0%</u>	<u>(53,126)</u>	(15.9)
Profit/(Loss) for the period	11,437		(45,180)		56,617	N/A

The board (the “**Board**”) of directors (the “**Directors**”) of PuraPharm Corporation Limited (the “**Company**”) is pleased to present the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”) with the corresponding comparative figures of the six months ended 30 June 2019 and certain comparative audited figures as at 31 December 2019 as follows.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
	<i>Notes</i>	2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	5	280,432	333,558
Cost of sales		<u>(115,598)</u>	<u>(140,112)</u>
Gross profit		164,834	193,446
Other income and gains	5	45,452	6,752
Selling and distribution expenses		(96,778)	(115,856)
Administrative expenses		(75,677)	(105,707)
Impairment of financial assets, net		(3,734)	(2,690)
Other expenses		(6,544)	(5,177)
Finance costs		<u>(11,165)</u>	<u>(13,516)</u>
PROFIT/(LOSS) BEFORE TAX	6	16,388	(42,748)
Income tax expense	7	<u>(4,951)</u>	<u>(2,432)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>11,437</u>	<u>(45,180)</u>
Attributable to owners of the parent		<u>11,437</u>	<u>(45,180)</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT			
(expressed in HK cents per share)			
Basic (Restated for six month ended 30 June 2019)			
— For profit/(loss) for the period	9	<u>3.28</u>	<u>(17.7)</u>
Diluted (Restated for six month ended 30 June 2019)			
— For profit/(loss) for the period	9	<u>3.28</u>	<u>(17.7)</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	<u>11,437</u>	<u>(45,180)</u>
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	<u>(6,849)</u>	<u>(1,991)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(6,849)</u>	<u>(1,991)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>4,588</u>	<u>(47,171)</u>
Attributable to owners of the parent	<u>4,588</u>	<u>(47,171)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		250,676	239,356
Investment properties		7,472	7,557
Right-of-use assets		114,753	121,117
Goodwill	<i>10</i>	88,339	88,339
Other intangible assets		32,929	34,275
Financial assets at fair value through profit or loss		18,251	18,195
Biological assets		30,883	52,436
Prepayments for non-current assets	<i>12</i>	43,388	50,902
Deferred tax assets		10,590	12,363
		<hr/>	<hr/>
Total non-current assets		597,281	624,540
CURRENT ASSETS			
Inventories		185,789	200,888
Biological assets		28,754	10,077
Trade and bills receivables	<i>11</i>	220,898	230,734
Prepayments, deposits and other receivables	<i>12</i>	77,876	62,879
Pledged bank deposits		17,656	25,115
Cash and cash equivalents		98,798	68,009
		<hr/>	<hr/>
Total current assets		629,771	597,702
CURRENT LIABILITIES			
Trade and bills payables	<i>13</i>	178,200	178,985
Other payables and accruals		97,820	97,285
Interest-bearing bank and other borrowings	<i>14</i>	272,961	312,282
Lease liabilities		30,222	28,030
Loans from a director		—	15,000
Tax payable		5,282	5,850
Government grants		1,602	1,648
		<hr/>	<hr/>
Total current liabilities		586,087	639,080
		<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)		43,684	(41,378)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		640,965	583,162

		30 June 2020	31 December 2019
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Other payable		29,597	30,173
Interest-bearing bank and other borrowings	<i>14</i>	113,842	143,715
Lease liabilities		26,956	42,506
Government grants		1,351	2,038
Deferred tax liabilities		1,803	2,607
		<hr/>	<hr/>
Total non-current liabilities		173,549	221,039
		<hr/>	<hr/>
Net assets		467,416	362,123
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>15</i>	306,042	204,028
Shares held for share award scheme	<i>16(b)</i>	(6,258)	(7,200)
Reserves		167,632	165,295
		<hr/>	<hr/>
Total equity		467,416	362,123
		<hr/> <hr/>	<hr/> <hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax:		16,388	(42,748)
Adjustments for:			
Finance costs		11,165	13,516
Foreign exchange loss, net	6	1,002	610
Fair value (gain)/loss on biological assets, net	6	(2,579)	915
Loss on disposal of property, plant and equipment	6	1,822	1,740
Gain on disposal of right-of-use assets		(699)	—
Fair value gain on financial assets at fair value through profit or loss	5	(56)	(90)
Share option expense	16(a)	2,303	797
Equity-settled share award expense	16(b)	354	206
Depreciation of property, plant and equipment	6	14,247	14,903
Depreciation of right-of-use assets	6	8,936	14,728
Amortisation of other intangible assets	6	1,809	1,930
Impairment of property, plant and equipment	6	225	—
Impairment of trade and bills receivables	6	3,734	2,690
Write-down of inventories to net realisable value	6	2,435	2,632
Bank interest income	5	(496)	(223)
		60,590	11,606
Decrease in inventories		25,928	29,622
Increase in biological assets		(11,674)	(15,264)
Decrease in trade and bills receivables		2,233	43,885
Increase in prepayments, deposits and other receivables		(15,794)	(3,712)
Increase in trade and bills payables		2,556	6,201
Decrease in government grants		(501)	(1,387)
Increase/(decrease) in other payables and accruals		4,607	(10,315)
Cash generated from operations		67,945	60,636

	Six months ended 30 June	
	2020	2019
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cash generated from operations	67,945	60,636
Interest received	496	223
Interest element of finance lease rental payments	—	(2,738)
Hong Kong income tax paid	(2,640)	(784)
Overseas profits tax paid	(467)	(597)
PRC corporate income tax paid	(1,567)	(112)
	63,767	56,628
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(22,854)	(11,828)
Purchases of right-of-use assets	—	(26,609)
Proceeds from disposal of property, plant and equipment and other intangible assets	76	128
Addition to intangible assets	(537)	(661)
(Increase)/decrease in pledged deposits	7,459	(7,957)
	(15,856)	(46,927)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	251,297	140,276
Repayment of bank loans	(320,437)	(189,205)
Loans from a director	—	15,000
Repayments of loans to a director	(15,000)	—
Proceeds from issue of shares	105,305	—
Share issue expense	(7,257)	—
Interest paid	(13,443)	(10,775)
Principal portion of lease payment	(16,548)	(17,639)
	(16,083)	(62,343)

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	31,828	(52,642)
Cash and cash equivalents at beginning of period	50,429	90,516
Effect of foreign exchange rate changes, net	5,970	1,881
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	88,227	39,755
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	98,798	57,410
Bank overdrafts	(10,571)	(17,655)
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	88,227	39,755
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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND REORGANISATION

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 2020 (the “**Reporting Period**”), 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, 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 2020 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 2019.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period’s financial information:

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Other than as further explained below, the application of these amended 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.

Amendment to HKFRS 16

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the six months ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the six months ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$1,222,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the six months ended 30 June 2020.

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.

As compared with the six months ended 30 June 2019, the interests on lease liabilities were separately accounted for in each of the Group's operating segment during the Reporting Period. Accordingly, certain comparative amounts have been restated to conform with the presentation and disclosure of the Reporting Period.

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), equity-settled share option and share award scheme expense, finance cost (other than interest on lease liabilities), 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.

The following tables present revenue, profit and other segment information for the Group's operating segments for the six months ended 30 June 2020 and 2019.

Six months ended 30 June 2020 (Unaudited)

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue:							
Revenue from external customers	121,498	68,311	45,097	23,989	21,537	—	280,432
Intersegment sales	35,933	3,851	349	—	1,527	(41,660)	—
	<u>157,431</u>	<u>72,162</u>	<u>45,446</u>	<u>23,989</u>	<u>23,064</u>	<u>(41,660)</u>	<u>280,432</u>
Segment results	9,867	13,112	6,677	(3,433)	24,300	—	50,523
<i>Reconciliations:</i>							
Interest income							496
Foreign exchange loss, net							(1,002)
Equity-settled share award and Share option expense							(2,657)
Finance costs (other than interest on lease liabilities)							(9,236)
Corporate and other unallocated expenses							(21,736)
Profit before tax							16,388
Income tax expense							(4,951)
Net profit							<u>11,437</u>
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible assets	5,247	1,243	3,297	3,901	2,368	—	16,056
Depreciation of right-of-use assets	3,054	578	137	3,921	1,246	—	8,936
Loss on disposal of items of property, plant and equipment	1,822	—	—	—	—	—	1,822
Write-down of inventories to net realisable value	2,156	—	279	—	—	—	2,435
Impairment of property, plant and equipment	225	—	—	—	—	—	225
Impairment of trade and bills receivables	3,734	—	—	—	—	—	3,734
Capital Expenditure	<u>25,028</u>	<u>85</u>	<u>431</u>	<u>801</u>	<u>3,132</u>	<u>—</u>	<u>29,477</u>

Six months ended 30 June 2019 (Unaudited)

	China CCMG HK\$'000 (Restated)	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000 (Restated)	Clinics HK\$'000 (Restated)	Plantation HK\$'000 (Restated)	Elimination HK\$'000	Total HK\$'000 (Restated)
Segment revenue:							
Revenue from 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>
Segment results	(14,818)	18,776	7,927	(13,231)	(6,555)	—	(7,901)
<i>Reconciliations:</i>							
Interest income							223
Foreign exchange loss, net							(610)
Share Option Scheme							(797)
Equity-settled share award and Share option expense							(206)
Finance costs (other than interest on lease liabilities)							(10,778)
Corporate and other unallocated expenses							(22,679)
Loss before tax							(42,748)
Income tax expense							(2,432)
Net loss							<u>(45,180)</u>
Other segment information:							
Depreciation and amortisation of property, plant and equipment, prepaid land lease payments and other intangible assets	5,780	1,350	1,925	5,536	2,242	—	16,833
Depreciation of right-of-use asset	3,288	—	874	9,719	847	—	14,728
Loss on disposal of items of property, plant and equipment	—	—	—	1,740	—	—	1,740
Write-down of inventories to net realisable value	2,632	—	—	—	—	—	2,632
Impairment of trade and bills receivables	2,690	—	—	—	—	—	2,690
Capital Expenditure	<u>4,778</u>	<u>517</u>	<u>991</u>	<u>1,734</u>	<u>6,569</u>	<u>—</u>	<u>14,589</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:

	Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Revenue from contracts with customers		
Sales of CCMG products	207,885	256,609
Sales of Chinese healthcare products	45,097	48,508
Sales of raw Chinese herbs	21,537	15,553
Rendering of Chinese medical diagnostic services (the "Diagnostic Services")	5,913	12,888
	280,432	333,558

Disaggregated revenue information

Segments	For the six months ended 30 June					
	2020			2019		
	Sale of goods <i>HK\$'000</i> (Unaudited)	Diagnostic services <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)	Sale of goods <i>HK\$'000</i> (Unaudited)	Diagnostic services <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Types of goods or services						
Sale of goods	274,519	—	274,519	320,670	—	320,670
Rendering of services	—	5,913	5,913	—	12,888	12,888
Total revenue from contracts with customers	274,519	5,913	280,432	320,670	12,888	333,558
Geographical markets						
Hong Kong	102,873	5,763	108,636	145,842	12,498	158,340
Mainland China	27,220	150	27,370	150,978	387	151,365
Other countries/regions	144,426	—	144,426	23,850	3	23,853
Total revenue from contracts with customers	274,519	5,913	280,432	320,670	12,888	333,558
Timing of revenue recognition						
Goods transferred at a point in time	274,519	—	274,519	320,670	—	320,670
Services transferred over time	—	5,913	5,913	—	12,888	12,888
Total revenue from contracts with customers	274,519	5,913	280,432	320,670	12,888	333,558

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income and gains		
Government grants*	40,823	4,595
Fair value gain on biological assets, net	2,579	—
Gain on disposal of right-of-use assets	699	—
Gain from the sale of equipment and accessories	509	1,271
Fair value gain on financial assets at fair value through profit or loss	56	90
Bank interest income	496	223
Others	290	573
	<u>45,452</u>	<u>6,752</u>

- * The amount represented government grants from the relevant authorities in the People's Republic of China (the "PRC") and Hong Kong Government, which consist primarily of the PRC subsidies and compensation for operation finance cost, rewarding the Group's industrial investments in poverty area, research and development costs, tax rebates subsidy and grants for improvement of our research facilities in relation to certain research and development projects. Hong Kong subsidies to support enterprise effected by COVID-19 pandemic,

6. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	109,412	130,954
Cost of services provided	3,751	6,526
Depreciation of property, plant and equipment	14,247	14,903
Depreciation of right-of-use assets	8,936	14,728
Amortisation of other intangible assets	1,809	1,930
Research and development costs*	8,044	11,856
Minimum lease payments under operating leases:		
Office equipment	37	50
Land and buildings	3,799	3,961
	3,836	4,011
Auditors' remuneration	1,107	1,583
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	44,916	50,413
Pension scheme contributions	3,632	5,932
Share option expenses (<i>note 16(a)</i>)	238	72
Equity-settled share award expenses (<i>note 16(b)</i>)	183	(90)
	48,969	56,327
Foreign exchange loss, net**	1,002	610
Fair value (gain)/loss on biological assets, net	(2,579)	915
Loss on disposal of property, plant and equipment	1,822	1,740
Impairment of financial asset, net:		
Impairment of trade and bill receivables	3,734	2,690
Impairment of property, plant and equipment	225	—
Write-down of inventories to net realisable value***	2,435	2,632

* Included in the research and development costs, there are expenditure of HK\$629,000 (six months ended 30 June 2019: HK\$1,001,000) disclosed in the item of "depreciation" and HK\$3,895,000 (six months ended 30 June 2019: HK\$4,250,000) disclosed in the item of "employee benefit expenses" for the six months ended 30 June 2020.

** 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 profits tax has been provided at the rate of 16.5% (Six months ended 30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. U.S. and Japan profits taxes have been provided at the rates of 21% and 23.2% on the estimated assessable profits arising in the respective jurisdictions during the six months ended 30 June 2020 and 2019. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, Pura Pharm (Nanning) Pharmaceuticals Co., Limited ("Pura Pharm 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 2020 and 2019 and the preferential income tax rate was 0%.

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current	3,982	3,934
Deferred	969	(1,502)
Total tax charge for the period	<u>4,951</u>	<u>2,432</u>

8. DIVIDEND

No interim dividend was proposed for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

9. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2020 excluding ordinary shares purchased by the Group and held for Award Scheme (note 16(b)).

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Restated)
Profit/(loss) attributable to the owners of the parent (HK\$'000)	<u>11,437</u>	<u>(45,180)</u>
Number of issued shares on 1 January	263,261,961	247,717,920
Adjustment for vested shares under share award scheme	(2,183,569)	(2,473,569)
Effect of Right Issue (note 15)	<u>87,269,158</u>	<u>10,038,694</u>
Weighted average number of ordinary shares in issue during the period	<u>348,347,550</u>	<u>255,283,045</u>
Basic earnings/(loss) per share (expressed in HK cents per share)	<u>3.28</u>	<u>(17.7)</u>

(b) Diluted

Diluted earnings/(loss) per share is calculated by dividing the profit/(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	
	2020	2019
	(Unaudited)	(Restated)
Profit/(loss) attributable to the owners of the parent (HK\$'000)	<u><u>11,437</u></u>	<u><u>(45,180)</u></u>
Weighted average number of ordinary shares in issue during the period	<u>348,347,550</u>	255,283,045
Adjustment for Award Shares*	<u>702,569</u>	—
Weighted average number of ordinary shares for diluted earnings per share calculation	<u><u>349,050,119</u></u>	<u><u>255,283,045</u></u>
Diluted earnings/(loss) per share (expressed in HK cents per share)	<u><u>3.28</u></u>	<u><u>(17.7)</u></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 months ended 30 June 2019 and were ignored in the calculation of diluted loss per share during six months ended 30 June 2019.

The Group also had no potentially dilutive ordinary shares in issue for Share Options during six month ended 30 June 2020 as its excise price is higher than market price as at the end of the Reporting Period.

10. GOODWILL

	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
At 1 January	<u>88,339</u>	155,685
Impairment recognizes during the period/year	<u>—</u>	<u>(67,346)</u>
At 30 June/31 December	<u><u>88,339</u></u>	<u><u>88,339</u></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:

	30 June 2020	31 December 2019
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Audited)
Plantation CGU	67,346	67,346
Chinese herbal products CGU	13,705	13,705
SODX CGU	7,288	7,288
	<u>88,339</u>	<u>88,339</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:

	30 June 2020		31 December 2019	
	Growth Rate	Pre-tax Discount Rate	Growth Rate	Pre-tax Discount Rate
Plantation CGU	3.0%	13.3%	3.0%	15.0%
Chinese herbal products CGU	2.0%	17.4%	2.0%	18.4%
SODX CGU	0.8%	12.1%	0.8%	11.7%

Assumptions were used in the value in use calculation of each CGU as at 30 June 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

Compound annual growth rate within the Budget Period — The compound annual growth rate within the budget period is estimated based on the historical sales data and market outlook perceived by management.

Growth rates to extrapolate cash flows beyond the budget period — The growth rates used to extrapolate the cash flows beyond the budget 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.

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.

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.

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

The values assigned to above key assumptions 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.

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade receivables	215,825	230,766
Bills receivables	24,857	17,234
	240,682	248,000
Less: impairment of trade and bills receivables	(19,784)	(17,266)
	<u>220,898</u>	<u>230,734</u>

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:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Within 1 months	48,573	89,850
1 to 3 months	48,206	48,215
3 to 6 months	51,773	37,272
Over 6 months	72,346	55,397
	<u>220,898</u>	<u>230,734</u>

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Non-current		
Prepayments for non-current assets	<u>43,388</u>	<u>50,902</u>
Current		
Prepayments	90,353	79,992
Right of return assets	1,938	2,177
Deposit and other receivables	29,205	31,848
	<u>121,496</u>	<u>114,017</u>
Less: impairment allowance	<u>(232)</u>	<u>(236)</u>
	<u>121,264</u>	<u>113,781</u>
Portion classified as non-current	<u>(43,388)</u>	<u>(50,902)</u>
Total	<u>77,876</u>	<u>62,879</u>

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:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Within 1 month	14,448	61,380
1 to 2 months	15,084	26,004
2 to 3 months	20,843	10,971
Over 3 months	127,825	80,630
	<u>178,200</u>	<u>178,985</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. Include in the pledged bank deposits amounting to HK\$14,656,000 was pledged for bills payable.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	30 June 2020 (Unaudited) Maturity	HK\$'000
Current			
Bank overdraft — unsecured	5.00	On demand	2,914
Bank overdraft — secured	4.25-5.25	On demand	7,657
Bank loans — secured	2.00-3.75	On demand	42,304
Bank loans — secured	0.85-9.00	2020/2021	164,416
Bank loans — unsecured	2.10-5.85	On demand	27,413
Bank loans — unsecured	4.50-8.50	2020/2021	28,257
			<u>272,961</u>
Non-current			
Bank loans and other borrowings — secured	0.85-5.88	2021-2029	21,836
Bank loans — unsecured	4.50-8.00	2022-2026	92,006
			<u>113,842</u>
Total			<u>386,803</u>

31 December 2019
(Audited)

	Effective interest rate (%)	Maturity	HK\$'000
Current			
Bank overdraft — unsecured	4.75–5.25	On demand	7,988
Bank overdraft — secured	3.75–4.25	On demand	9,592
Bank loans — secured	1.75–6.28	On demand	94,890
Bank loans and other borrowings — secured	0.85–6.17	2020	90,984
Bank loans — unsecured	3.10–5.50	On demand	55,088
Bank loans — unsecured	4.35–9.00	2020	53,740
			<u>312,282</u>
Non-current			
Bank loans and other borrowings — secured	0.85–8.00	2021–2029	58,369
Bank loans — unsecured	4.50–6.18	2021–2027	85,346
			<u>143,715</u>
Total			<u><u>455,997</u></u>

30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
--	--

Analysed into:

Bank loans and other borrowings payable:

Within one year or on demand	272,961	312,282
In the second year	32,397	60,659
In the third to fifth years, inclusive	47,924	37,870
Beyond five years	33,521	45,186
	<u>386,803</u>	<u>455,997</u>

Interest-bearing bank and other borrowings are denominated in:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
HK\$	81,740	163,861
RMB	294,835	281,732
JPY	3,096	3,272
US\$	7,132	7,132
	<u>386,803</u>	<u>455,997</u>

- (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.
- (b) As at 30 June 2020, the Group’s bank loans amounting to approximately HK\$61,525,000 were not in compliance with certain financial loan covenants. Since these bank loans were either repayable on demand or within one year and have already been classified as a current liability, no further reclassification is needed.
- (c) As at 30 June 2020, the Group’s bank facilities including overdraft amounting to HK\$478,335,000 (31 December 2019: HK\$536,168,000) of which HK\$386,803,000 (31 December 2019: HK\$455,997,000) had been utilised.
- (d) The following assets were pledged as securities for interest-bearing bank and other borrowings and bills payables:

	Carrying value 30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Property, plant and equipment	68,824	182,374
Right-of-use assets	54,400	80,099
Financial assets at fair value through profit or loss	18,251	18,195
Inventories	38,367	39,113
Trade and bills receivables	102,065	62,727
Pledged bank deposits	17,656	25,115
	<u>299,563</u>	<u>407,623</u>

15. SHARE CAPITAL

	30 June 2020	31 December 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	<u>38,750,000</u>	<u>38,750,000</u>
Issued and fully paid:		
394,892,941 (31 December 2019: 263,261,961) ordinary shares of US\$0.1 (HK\$0.775) each	<u>306,042</u>	<u>204,028</u>

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

	Number of shares in issue	Share capital	Share premium account	Total
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2019 and 1 January 2020	<u>263,261,961</u>	<u>204,028</u>	<u>224,484</u>	<u>428,512</u>
Effect of right issue on 2 March 2020 (note a)	131,630,980	102,014	3,291	105,305
Share issue expenses	—	—	(7,257)	(7,257)
Vesting of Share Award Scheme (note 16(b))	<u>—</u>	<u>—</u>	<u>140</u>	<u>140</u>
At 30 June 2020	<u>394,892,941</u>	<u>306,042</u>	<u>220,658</u>	<u>526,700</u>

- (a) On 2 March 2020 (the “**Rights Issue Date**”), 131,630,980 new right shares of US\$0.1 (HK\$0.775) each were allotted and issued at a price of HK\$0.8 per share on the basis of one new rights share for every two shares held on 6 February 2020 (the “**Rights Issue**”). The proceeds of HK\$102,014,000 representing the par value were credited to the Company's share capital and the remaining proceeds of HK\$3,291,000 (before deduction of share issue expenses) were credited to the share premium account. Further details of the Rights Issue are set out in the prospectus dated 7 February 2020 and announcement dated 28 February 2020 issued by the Company.

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

(a) Share option scheme

The Company operates a share option scheme (the “**Share Option Scheme**”) for the purpose to recognise and acknowledge the contributions that the eligible participants of the Share Option Scheme had or may have made to the Company. Eligible participants of the Share 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 Share Option Scheme (the “**Eligible Option Participants**”). The Share 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 Share 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 Share Option Scheme.

The subscription price in respect of each share issued pursuant to the exercise of an option granted under the Share 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 Share 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 "**Date of Grant**"), 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.

The following share options were outstanding under the Share Option Scheme:

As at 30 June 2020

	2020	
	Weighted average exercise price HK\$' (Unaudited)	Number of options '000 (Unaudited)
At 1 January	2.4	6,376
Effect of Right Issue (<i>note</i>)	(0.1)	267
	<hr/>	<hr/>
At 30 June	2.3	6,643
	<hr/> <hr/>	<hr/> <hr/>

Vesting schedule

- (i) 3,100,500 options granted will be vested on 10 May 2020;
- (ii) 3,100,500 options granted will be vested on 10 May 2021;
- (iii) 221,000 options granted will be vested on 10 May 2022; and
- (iv) 221,000 options granted will be vested on 10 May 2023.

Note

As a result of the completion of the Rights Issue (note 15), assuming no other adjustment events under the terms and conditions of the Share Option Scheme having been triggered and pursuant to (i) the terms and conditions of Share Option Scheme; and (ii) Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules, the exercise price of the Share Options and the number of Shares which may fall to be issued upon exercise of the subscription rights attaching to the Share Options has been adjusted.

As at 31 December 2019

	2019	
	Weighted average exercise price <i>HK\$</i> (audited)	Number of options '000 (audited)
At 1 January	—	—
Granted during the year	<u>2.4</u>	<u>6,376</u>
At 31 December	<u><u>2.4</u></u>	<u><u>6,376</u></u>

Vesting schedule

- (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.

Details of the share option expenses of the Group during the six months ended 30 June 2020 and 2019 is listed as below:

	Six months ended 30 June	
	2020	2019
	<i>HK\$</i>	<i>HK\$</i>
	(Unaudited)	(Audited)
Share option expenses recognised during the period	<u><u>2,303</u></u>	<u><u>797</u></u>
Less: Included in directors' remuneration	<u>(2,065)</u>	<u>(725)</u>
Employee benefit expenses	<u><u>238</u></u>	<u><u>72</u></u>

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:

	Date of Grant
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)	<u>2.4</u>

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, the Company had 6,643,000 share options outstanding under the Scheme, which represented approximately 1.7% of the Company's shares in issue as at 30 June 2020. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,643,000 additional ordinary shares of the Company and additional equity amount of HK\$15,278,900 (before issue expenses).

(b) Shares held for the share award scheme

The Board has adopted a Share Award Scheme on 22 February 2016 (the “**Share 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 Share 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 administrating 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 2020, the Share Award Scheme Trust holds 1,916,000 (31 December 2019: 2,206,000) shares of the Company. During the six months ended 30 June 2020, 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 2020.

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. Four of the Eligible Award Participants have resigned during the years ended 31 December 2018 and 2019, and therefore their 510,000 shares of Award Shares were forfeited. 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.

Details of the equity-settled share award expenses of the Group during the six months ended 30 June 2020 and 2019 is listed as below:

	Six months ended 30 June	
	2020	2019
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Unaudited)
Gross amount of recognition share award expenses	354	741
Forfeited during the period	<u>—</u>	<u>(535)</u>
Net share award expenses recognised during the period	<u>354</u>	<u>206</u>
Less: Included in directors’ remuneration	<u>(171)</u>	<u>(296)</u>
Employee benefit expenses	<u>183</u>	<u>(90)</u>

Summary of particulars of the Award Shares is as follows:

Date of Grant	Number of outstanding Awarded Shares as at 1 January 2020	Fair value <i>HK\$'000</i>	Vesting Date	Number of Awarded Shares		
				Vested during the current period	Forfeited during the current period	Outstanding as at 30 June 2020
16 June 2017	290,000	1,081	16 June 2020	(290,000)	—	—
16 June 2017	290,000	1,081	16 June 2021	—	—	290,000
16 June 2017	145,000	541	16 June 2022	—	—	145,000
	<u>725,000</u>	<u>2,703</u>		<u>(290,000)</u>	<u>—</u>	<u>435,000</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. Abraham Chan	Director of the Company
Mr. Chan Kin Man, Eddie (“Mr. Eddie Chan”)	Director of the Company
Edtoma Corporate Services Limited (“Edtoma”)	Company significantly influenced by Mr. Eddie Chan
CWCC Consultancy Limited (“CWCC”)	Company significantly influenced by Mr. Eddie Chan

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

		Six months ended 30 June	
		2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Loans from a director	(i)	—	15,000
Repayment of Loans to a director	(i)	15,000	—
Interest expense to a director	(i)	107	686
Professional service fees	(ii)	<u>262</u>	<u>266</u>

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 Reporting Period, the Group repaid loans amounting to HK\$15 million to Mr. Abraham Chan (six months ended 30 June 2019: loans drew down amounted to HK\$15 million from Mr. Abraham Chan). The interest expense in relation to the aforesaid loan 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:

	30 June 2020		31 December 2019	
	Maximum amount outstanding		Maximum amount outstanding	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Loans from a director				
Mr. Abraham Chan	—	15,000	15,000	45,000

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:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	2,688	2,139
Pension scheme contributions	27	27
Share option expense (note 16(a))	2,065	725
Equity-settled share award expense (note 16(b))	171	296
	<u>4,951</u>	<u>3,187</u>

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 financial assets at amortised cost which comprise financial assets at fair value through profit or loss, cash and cash equivalents, pledged bank deposits, trade and bills 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, lease liabilities, 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 financial assets at amortised cost 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 Reporting Period.

19. CONTINGENT LIABILITIES

For the year ended 31 December 2019, an action was brought against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedling products) (the "**Agreements**"). Since the plaintiff of the action had not yet provided the evidence regarding the aforesaid claims, the Directors of the Group have made provision of HK\$4.0 million for the probability-weighted outcomes which might arise from the action (including related legal and other costs) according to the advice from the Group's legal counsel and available evidence on hand. Up to the date of the announcement, such litigation is still in progress, and there was no further provision made by the Group based on the latest available information. The Company would vigorously contest the action and the claims made against the Group.

20. EVENTS AFTER THE REPORTING PERIOD

On 24 July 2020, the Board of the Directors of the Group has resolved to grant share options to certain directors and employees of the Company, entitling them to subscribe for a total of 16,124,000 ordinary shares of the Company (the "**Granted Share Options**"). Further details of the Granted Share Options are set out in the announcement dated 24 July 2020 issued by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The outbreak of the COVID-19 pandemic since the beginning of 2020 is a challenging situation faced by the society on a global basis. Under this challenging economic situation, the Group's revenue during the 2020 Interim Period was HK\$280.4 million, declined by HK\$53.1 million or 15.9% compared to last corresponding period.

The Group reported a net profit of HK\$11.4 million for the 2020 Interim Period as compared with the net loss of HK\$45.2 million in last corresponding period. Such net profit was mainly attributable to the significant non-recurring Government subsidies received in the PRC and Hong Kong. If excluding such non-recurring Government subsidies, the Group would record an operating loss for the 2020 Interim Period but such operating loss is materially less than the corresponding period in 2019, due to stringent control on the operating costs.

Looking forward, the Group believes that the recovery momentum in China CCMG business will continue in second half of 2020, the financial performance will gradually improve.

Subsequent to the outbreak of COVID-19 pandemic, the Group believed that consumer health awareness will be increased and the growth in demand for quality healthcare products will render further opportunities for the Group's Chinese healthcare products segment. The Group will continue to proactively develop new and innovative healthcare products to enrich the products portfolio, devote more focus to market the Group's healthcare products through online platform in order to counteract the weakened retail market.

The Group anticipates that volatility and uncertainty will continue in 2020, we will closely monitor the business environment and proactively adjust the business strategy to cope with the challenge and seek for opportunities.

The Group is pleased that a Rights Issue was successfully completed in March 2020, and this further strengthen the financial position of the Group to maintain its competitiveness under this challenging environment. We appreciated the continuous support from the shareholders and their confidence in our business. We will endeavor to achieve sustainability and stability of our business so as to secure the best interests of our shareholders, and continue to be the pioneer in modernizing Chinese medicine through our innovation and conviction.

FINANCIAL REVIEW

Sales performance by segment

	Six months ended 30 June					
	2020		2019		Change	
	Revenue HK\$'000	% of total	Revenue HK\$'000	% of total	HK\$'000	%
China CCMG	121,498	43.3%	133,982	40.2%	(12,484)	(9.3)
Hong Kong CCMG	68,311	24.4%	83,851	25.1%	(15,540)	(18.5)
Chinese healthcare products	45,097	16.1%	48,508	14.5%	(3,411)	(7.0)
Nong's® (農本方®) Chinese medicine clinics	23,989	8.5%	51,664	15.5%	(27,675)	(53.6)
Plantation	21,537	7.7%	15,553	4.7%	5,984	38.5
Total	<u>280,432</u>	<u>100.0%</u>	<u>333,558</u>	<u>100.0%</u>	<u>(53,126)</u>	(15.9)

China CCMG

For the six months ended 30 June 2020 (“**2020 Interim Period**”), the sales of CCMG in China was HK\$121.5 million, representing a decrease of HK\$12.5 million or 9.3% compared to HK\$134.0 million for the corresponding period in last year. Due to the outbreak of the COVID-19 pandemic since the beginning of 2020, the PRC Government has adopted a series of stringent measures to prevent and control the COVID-19, including travel restrictions, regional lockdowns, and temporary business shutdowns of certain Chinese medicine clinics and hospitals. As a result, the China CCMG sales business was negatively affected, especially in first quarter of 2020. But the China CCMG sales in China was gradually improved in second quarter due to the control of the COVID-19 pandemic.

Hong Kong 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 2020 Interim Period, the direct sales of CCMG products in Hong Kong was HK\$68.3 million, representing a decrease of 18.5% compared with the corresponding period in last year. The outbreak of COVID-19 pandemic affected the overall business environment in Hong Kong, which negatively affecting consumers’ sentiment and the demand for Chinese medicine services.

During the 2020 Interim Period, the Group still remained as a leading CCMG supplier to the major non-profit organisations in Hong Kong, and continued to expand its customer base in private Chinese medicine practitioners sector.

Nong's® (農本方®) Chinese medicine clinics

During the 2020 Interim Period, 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\$24.0 million in aggregate, representing a decrease of HK\$27.7 million or 53.6% compared to HK\$51.7 million for the corresponding period in last year. The decrease in revenue was mainly attributable to the downsize of the clinic network in Hong Kong by closing the loss-making clinics. The number of clinics in operation in Hong Kong decreased from 57 clinics as at 31 December 2019 to 26 clinics as at 30 June 2020.

Although the revenue of Nong's clinics segment decreased by more than 50%, the loss attributed by Nong's clinics segment has substantially decreased during the 2020 Interim Period as the loss-making clinics were closed and the relevant assets of those clinics were fully impaired for the year ended 31 December 2019.

The Group will continue to improve the performance of the existing clinic portfolio and proactively negotiate with the landlords on rental reduction in order to achieve clinic profitability as early as possible.

Chinese healthcare products

	Six months ended 30 June					
	2020		2019		Change	
	Revenue <i>HK\$000</i>	% of total	Revenue <i>HK\$000</i>	% of total	<i>HK\$'000</i>	%
U.S.	20,745	46.0%	17,999	37.1%	2,746	15.3
Japan	5,739	12.7%	5,100	10.5%	639	12.5
Hong Kong	18,613	41.3%	25,409	52.4%	(6,796)	(26.7)
	<u>45,097</u>	<u>100.0%</u>	<u>48,508</u>	<u>100.0%</u>	<u>(3,411)</u>	<u>(7.0)</u>

During the 2020 Interim Period, revenue from sales of Chinese healthcare products in U.S., Japan and Hong Kong markets was HK\$45.1 million in aggregate, representing a decrease of HK\$3.4 million or 7% as compared to HK\$48.5 million in last corresponding period.

Among the Group's Chinese healthcare products segment, the sales in overseas market showed an increase due to the increase in consumer demand. The sales drop in Hong Kong market is due to difficult retail market and sluggish consumption sentiment, which led to a decline in customer flow in general in pharmacies and key chain stores.

Subsequent to the outbreak of COVID-19 pandemic, the Group believed that consumer health awareness will be increased and the growth in demand for healthcare products will render further opportunities for the Group's Chinese healthcare products segment. The Group will continue to proactively develop new and innovative healthcare products to enrich the products portfolio, devote more focus to market the Group's healthcare products through online platform in order to counteract the weakened retail market.

Plantation

For the 2020 Interim Period, the upstream plantation segment contributed HK\$21.5 million to the Group's overall revenue, more than the corresponding period in last year of HK\$15.6 million by HK\$5.9 million or 38.5%. The revenue from the plantation segment was mainly derived from the plantation and trading of raw Chinese herbs. The increase in revenue from the plantation segment was mainly attributable to increase in the sales of seedling business, resulted from the increase in demand for our products to farming projects driven by the local Government.

Profitability

	Six months ended 30 June		Change
	2020	2019	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	280,432	333,558	(15.9%)
Cost of sales	(115,598)	(140,112)	(17.5%)
Gross profit	<u>164,834</u>	<u>193,446</u>	<u>(14.8%)</u>
Gross profit margin	<u>58.8%</u>	<u>58.0%</u>	

The Group's gross profit margin for the 2020 Interim Period was 58.8%, representing an increase of 0.8% compared to 58.0% in last corresponding period. The average selling price of CCMG and Chinese healthcare products remained stable during the 2020 Interim Period. The improvement of the gross profit margin was mainly attributable to the decrease in unit cost of CCMG products resulted from the cost control on production. However, the overall margin was partially offset by the decrease in sales from Nong's clinics segment, which has a relatively high gross profit margin.

Other income and gains

The Group's other income and gains mainly comprised of government grants, fair value gain on biological assets, gain from sale of equipment and accessories, financial assets at fair value through profit or loss and interest income. For the 2020 Interim Period, the Group's other income and gain was HK\$45.5 million, representing an increase of HK\$38.7 million or 573.2% compared to HK\$6.8 million for the corresponding period in last year.

The increase was mainly attributable to significant increase in non-recurring government grants by HK\$36.2 million for the 2020 Interim Period compared to last corresponding period. The government grant income mainly consisted of the amounts received from relevant PRC authorities to reward the Group's industrial investment in Guizhou province, and tax rebates subsidy. Also, the Group also received subsidies from Hong Kong Government to support enterprise by COVID-19 pandemic.

Also, there is a net fair value gain on biological assets of HK\$2.6 million for the 2020 Interim Period, whereas it was a fair value loss on biological asset of HK\$0.9 million in last corresponding period.

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 2020 Interim Period, the Group's selling and distribution expenses was HK\$96.8 million, representing a decrease of HK\$19.1 million or 16.5% compared to HK\$115.9 million for the corresponding period in last year. The decrease was mainly attributable to (i) decrease in marketing activities due to the impact of COVID-19 pandemic and (ii) decrease in distribution cost associated with the sales drop.

For the 2020 Interim Period, selling and distribution expenses as a percentage to revenue decreased from 34.7% in last corresponding period to 34.5% for the 2020 Interim Period. Despite the sales dropped for the 2020 Interim Period, the Group maintained a reasonable marketing expenses to maintain the brand competitiveness and the market awareness of the Group's products.

Administrative expenses

	Six months ended			
	30 June			
	2020	2019	Change	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Clinics operating expenses	18,714	42,113	(23,399)	(55.6)
Research and development costs	8,044	11,856	(3,812)	(32.2)
General administrative expenses	48,919	51,738	(2,819)	(5.4)
Total administrative expenses	<u>75,677</u>	<u>105,707</u>	<u>(30,030)</u>	<u>(28.4)</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 2020 Interim Period, the Group's operating expenses for clinics was HK\$18.7 million, representing a decrease of HK\$23.4 million or 55.6% compared to HK\$42.1 million for the corresponding period in last year. The decrease was mainly attributable to the downsizing of clinic network in Hong Kong. The number of clinics in operation in Hong Kong decreased from 57 clinics as at 31 December 2019 to 26 clinics as at 30 June 2020.

The research and development costs for the 2020 Interim Period decreased by HK\$3.8 million or 32.2%, mainly due to defer of certain development projects due to the impact of COVID-19 pandemic.

The Group's general administrative expenses for the 2020 Interim Period decreased by HK\$2.8 million or 5.4%, due to the control on the operating costs.

Other expenses

The Group's other expenses mainly comprised of loss on disposal of fixed assets, net foreign exchange loss and voluntary charity donation. For the 2020 Interim Period, the Group's other expenses was HK\$6.5 million, representing an increase of HK\$1.4 million or 26.4% compared to HK\$5.2 million for the corresponding period in last year. The increase was primarily attributable to the increase in voluntary charity donation and exchange loss.

Finance costs

For the 2020 Interim Period, the Group's finance costs amounted to HK\$11.2 million, representing a decrease of HK\$2.4 million or 17.4% as compared to HK\$13.5 million for the corresponding period in last year. The decrease was mainly due to the decrease in average outstanding bank and other borrowings during the 2020 Interim Period.

Income tax expense

During the 2020 Interim Period, the Group's income tax expenses increased from HK\$2.4 million in last corresponding period to HK\$5.0 million for the 2020 Interim Period. The income tax expense was arose from the profitable subsidiaries and the increase was mainly due to the increase in profitability of the Group during the 2020 Interim Period.

Profit for the period

The Group's revenue for the 2020 Interim Period was HK\$280.4 million, representing a decrease of HK\$53.1 million or 15.9%, compared to HK\$333.6 million for the corresponding period in last year. The sales decrease was attributable to the adverse impact brought by the widespread outbreak of the COVID-19 pandemic in the People's Republic of China (the "PRC") and Hong Kong since early 2020, which negatively affected consumers' sentiment and the demand for Chinese medicine services.

The Group recorded a net profit for the 2020 Interim Period of HK\$11.4 million as compared with the net loss of HK\$45.2 million during the corresponding period in 2019. Such net profit is mainly attributable to a significant increase in non-recurring PRC Government subsidies income received by the Group in the 2020 Interim Period compared to the six months ended 30 June 2019. The increase in Government subsidies mainly consisted of the amounts received from relevant PRC authorities to reward the Group's industrial investment in Guizhou province, and tax rebates subsidy. If excluding such non-recurring Government subsidies income, the Group would record an operating loss for the 2020 Interim Period but such operating loss during the 2020 Interim Period is materially less than the corresponding period in 2019, due to stringent control on the operating costs.

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 2020, the total capital expenditure was HK\$23.4 million (six months ended 30 June 2019: HK\$39.1 million). The capital expenditures during the 2020 Interim Period was mainly incurred for construction of new warehouses in Nanning to replace the existing outsourcing warehouses for the Group's inventories storage in Nanning.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had net current assets of HK\$43.7 million (31 December 2019: net current liabilities of HK\$41.4 million), which included cash and cash equivalent of HK\$98.8 million (31 December 2019: HK\$68.0 million), interest-bearing bank and other borrowings amounting to HK\$273.0 million (31 December 2019: HK\$312.3 million) and loan from a director amounting HK\$15 million as at 31 December 2019, no such balance as at 30 June 2020. As at 30 June 2020, the Group's unused bank facilities including overdraft amounted to HK\$91.5 million (31 December 2019: HK\$80.2 million).

GEARING RATIO

As at 30 June 2020, 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 0.83 (31 December 2019: 1.3). The improvement of the gearing ratio was mainly attributable to (i) the decrease in interest-bearing bank and other borrowings and loan from a director was fully repaid, and (ii) increase in the equity base of the Company resulted from the Rights Issue completed in March 2020.

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 2020, the Group had a total of 707 employees (31 December 2019: 696 employees). During the six months ended 30 June 2020, total staff costs excluding Directors' remuneration was HK\$49.0 million (six months ended 30 June 2019: 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 and bills payable:

	Carrying value	
	30 June 2020 <i>HK\$'000</i>	31 December 2019 <i>HK\$'000</i>
Property, plant and equipment	68,824	182,374
Right-of-use assets	54,400	80,099
Financial assets at fair value through profit or loss	18,251	18,195
Inventories	38,367	39,113
Trade and bills receivables	102,065	62,727
Pledged bank deposits	17,656	25,115
	<u>299,563</u>	<u>407,623</u>

CAPITAL COMMITMENT

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Contracted, but not provided for:		
Land and buildings	26,386	26,579
Plant and machinery	3,542	8,142
	<u>29,928</u>	<u>34,721</u>

MATERIAL ACQUISITIONS, DISPOSALS AND MATERIAL INVESTMENT

There were no material acquisitions, disposals and material investment undertaken by the Group during the six months ended 30 June 2020.

CONTINGENT LIABILITIES

For the year ended 31 December 2019, an action was brought in the PRC against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedling products) (the “**Agreements**”). Since the plaintiff of the action had not yet provided the evidence regarding the aforesaid claims, the Directors of the Group have made provision of HK\$4.0 million for the probability-weighted outcomes which might arise from the action (including related legal and other costs) according to the advice from the Group’s legal counsel and available evidence on hand. Up to the date of this announcement, such litigation is still in progress, and there was no further provision made by the Group based on the latest available information. The Company would vigorously contest the action and the claims made against the Group. Other than the said legal action brought against the Group in the PRC, the Group did not have other material contingent liabilities for 2020 Interim Period.

THE RIGHTS ISSUE

On 3 January 2020, the Company announced a proposed Rights Issue to raise about HK\$105 million before expenses by issuing 131,630,980 Rights Shares, on the basis of one Rights Share for every two existing Shares then held at the Subscription Price of HK\$0.80 per Rights Share, representing a discount of approximately 37.5% to the closing price of HK\$1.28 per share as quoted on the Stock Exchange on 30 December 2019, being the last full trading day of the share before the release of the announcement in relation to the Rights Issue. The Rights Issue was completed on 2 March 2020, and 131,630,980 Rights Shares were allotted and issued to the shareholders accordingly, which carried the aggregate nominal value of US\$13,163,098. The gross proceeds raised from the Rights Issue was approximately HK\$105 million and the net proceeds was approximately HK\$98.0 million. The net Subscription Price, after deducting expenses and underwriting commission, was approximately HK\$0.745 per Right Share.

The Board considered that the Rights Issue allowed the Group to strengthen its capital structure without incurring debt financing cost, improve the financial position and provide additional financial resources for capturing suitable business expansion and investment opportunities when they arise.

For further information in relation to the Rights Issue, please refer to the announcement of the Company dated 3 January 2020, prospectus of the Company dated 7 February 2020, and the announcement of the Company dated 28 February 2020. For further information in relation to the use of proceeds from the Rights Issue, please refer to the paragraph headed “Net Proceeds from the Rights Issue” below in this announcement.

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 2020, the Group had utilised approximately HK\$276.3 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 amount of net proceeds (in HK\$ million)	Approximate percentage of net proceeds	Approximate amount utilized (in HK\$ million)	Approximate amount utilised during the Reporting Period (in HK\$ million)	Approximate amount unutilized (in HK\$ million)
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%	31.2	0.7	12.1
Additional working capital of the Group	28.8	10.0%	28.8	—	—
	<u>288.4</u>	<u>100.0%</u>	<u>276.3</u>	<u>0.7</u>	<u>12.1</u>

The unutilised net proceeds of HK\$12.1 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. The unutilised net proceeds of HK\$12.1 million for developing and launching two proprietary Chinese medicine products are expected to be fully utilised by 2021.

NET PROCEEDS FROM THE RIGHTS ISSUE

The actual use of the net proceeds from the Rights Issue as at 30 June 2020 are as follows:

Use	Approximate	Approximate	Approximate	Approximate	Approximate
	amount of net proceeds (in HK\$ million)	percentage of net proceeds	amount utilized (in HK\$ million)	amount utilised during the Reporting Period (in HK\$ million)	amount unutilized (in HK\$ million)
Repayment of bank loan	41.0	41.8%	41.0	41.0	—
Marketing expenses of the Group China					
CCMG business	20.0	20.4%	20.0	20.0	—
Raw herbs procurement	20.0	20.4%	16.5	16.5	3.5
General working capital	17.0	17.4%	15.0	15.0	2.0
	<u>98.0</u>	<u>100.0%</u>	<u>92.5</u>	<u>92.5</u>	<u>5.5</u>

The unutilised net proceeds from the Rights Issue are expected to be used according to the intended use of net proceeds as stated the prospectus of the Company dated 7 February 2020. The unutilised net proceeds of HK\$3.5 million and HK\$2 million for raw herbs procurement and general working capital are expected to be fully utilised by 2020.

SHARE OPTION SCHEME

On 12 June 2015, the Share Option Scheme was adopted by the then Shareholders and will remain in force for 10 years after its adoption. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group's operations. Under the terms of the Share Option Scheme, the Board may, at its discretion, grant share options to, among others, any full-time employee and any Director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors.

The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share on the date of grant. Any share options granted under the Share Option Scheme shall lapse in any event not later than ten years from the date of grant. A nominal value of HK\$1.00 is payable on acceptance of each grant of share options.

On 9 May 2019, 6,376,000 options were granted to four Directors and certain employees of the Company, entitling them to subscribe for a total of 6,376,000 shares at the exercise price of HK\$2.4 per share. The outstanding options and the exercise price were adjusted after the completion of the Rights Issue. Details of the options granted under the Share Option Scheme is as follows:

Grantees	Grant date	Adjusted Exercise price (note)	Vesting date	As at 1 January 2020	Number of Shares issuable under Options granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ lapsed during the Reporting Period	Effect of Rights Issue (note)	As at 30 June 2020
Directors	9 May 2019	HK\$2.3	10 May 2020	2,763,000	—	—	—	116,006	2,879,006
			10 May 2021	2,763,000	—	—	—	116,006	2,879,006
				5,526,000	—	—	—	232,012	5,758,012
Employees	9 May 2019	HK\$2.3	10 May 2020	212,500	—	—	—	8,922	221,422
			10 May 2021	212,500	—	—	—	8,922	221,422
			10 May 2022	212,500	—	—	—	8,922	221,422
			10 May 2023	212,500	—	—	—	8,922	221,422
				850,000	—	—	—	35,688	885,688
Total				6,376,000	—	—	—	267,700	6,643,700

Note: As a result of the completion of the Rights Issue, assuming no other adjustment events under the terms and conditions of the Share Option Scheme having been triggered and pursuant to (i) the terms and conditions of Share Option Scheme; and (ii) Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules, the exercise price of the Share Options and the number of Shares which may fall to be issued upon exercise of the subscription rights attaching to the Share Options has been adjusted.

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 2020, 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 2020, 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. The interim report of the Group for the six months ended 30 June 2020 has also been reviewed and passed by the Audit Committee.

REVIEW OF THE INTERIM RESULTS BY AUDITOR

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 has been reviewed by the auditors of the Company, Ernst & Young, 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 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. Having made specific enquiries of all Directors, all Directors confirmed that, they have complied with the required standard of dealing as set out in the Model Code throughout the six months ended 30 June 2020.

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 2020.

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

On 24 July 2020, the Board resolved to grant share options to five Directors and 13 employees of the Group entitling them to subscribe for a total of 16,124,000 Shares at the exercise price of HK\$0.8 per Share under the Share Option Scheme. Other than the above, the Board is not aware any significant event affecting the Company or any of its subsidiaries after the end of the Reporting Period and up to the date of this announcement requiring disclosure.

INTERIM DIVIDEND

The Board resolved not to recommend any payment of interim dividend for the six months ended 30 June 2020.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2020 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 and the website of the Company at www.purapharm.com in due course.

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

Hong Kong, 25 August 2020

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 directors of the Company are Mr. Chow, Stanley and Mr. Cheong Shin Keong; 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.