



PuraPharm



CLINICAL CENTER

MEDICINE DELIVERY

ONLINE

SERVICE

# 2022 INTERIM REPORT 中期報告

PuraPharm Corporation Limited  
培力農本方有限公司

Stock code 股票代號 : 1498

Purapharm Corporation Limited -

# INTERIM REPORT 2022

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Chan Yu Ling, Abraham (*Chairman*)  
Ms. Man Yee Wai, Viola  
Dr. Norimoto Hisayoshi

## NON-EXECUTIVE DIRECTORS

Mr. Chow, Stanley (retired on 23 May 2022)  
Mr. Cheung Shin Keong (retired on 31 March 2022)

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Kwok Wah, George  
Dr. Leung Lim Kin, Simon  
Prof. Tsui Lap Chee

## AUDIT COMMITTEE

Mr. Ho Kwok Wah, George (*Chairman*)  
Dr. Leung Lim Kin, Simon  
Prof. Tsui Lap Chee

## NOMINATION COMMITTEE

Mr. Chan Yu Ling, Abraham (*Chairman*)  
Prof. Tsui Lap Chee  
Mr. Ho Kwok Wah, George

## REMUNERATION COMMITTEE

Dr. Leung Lim Kin, Simon (*Chairman*)  
Mr. Ho Kwok Wah, George  
Prof. Tsui Lap Chee

## SCIENTIFIC ADVISORY COMMITTEE

Prof. Bruce Robinson (*Chairman*)  
Prof. Rudolf Bauer  
Prof. Piu Chan  
Prof. Liang Song Ming

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Dr. Norimoto Hisayoshi (*Chairman*)  
Mr. Cheung Kwun Kiu  
Ms. Ma Hang Woon  
Mr. Kwong Kar Fai  
Ms. Zhou Jian

## COMPANY SECRETARY

Ms. Chan Charmayne,  
ACG (CS, CGP), HKACG (CS, CGP)

## AUTHORIZED REPRESENTATIVES

Mr. Chan Yu Ling, Abraham  
Ms. Chan Charmayne,  
ACG (CS, CGP), HKACG (CS, CGP)

## INVESTOR RELATIONS

Ms. Lucine Zhu

## AUDITOR

Ernst & Young  
Certified Public Accountants  
Registered Public Interest Entity Auditor

## LEGAL ADVISORS

ONC Lawyers (As to Hong Kong law)  
Appleby (As to Cayman Islands law)

## REGISTERED OFFICE

P.O. Box 31119 Grand Pavilion  
Hibiscus Way, 802 West Bay Road  
Grand Cayman  
KY1-1205, Cayman Islands



## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 201–207, 2nd Floor,  
Wireless Centre, Phase One,  
Hong Kong Science Park, Pak Shek Kok,  
Tai Po, New Territories, Hong Kong

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong  
Investor Services Limited  
Shops 1712–1716, 17th Floor, Hopewell Centre  
183 Queen's Road East,  
Wan Chai, Hong Kong

## CAYMAN ISLANDS SHARE REGISTRAR

Ocorian Trust (Cayman) Limited  
Windward 3, Regatta Office Park  
P.O. Box 1350  
Grand Cayman, KY1-1108  
Cayman Islands

## SHARE INFORMATION

Date of listing: 8 July 2015  
Place of incorporation: Cayman Islands  
Place of listing: Main Board of  
The Stock Exchange of Hong Kong Limited  
Stock Code: 1498  
Board lot: 500 shares  
Financial year end: 31 December

## COMPANY'S WEBSITE

[www.purapharm.com](http://www.purapharm.com)

# CHAIRMAN'S STATEMENT

## DEAR SHAREHOLDERS,

In the first half of 2022, the sudden outbreak of the COVID-19 pandemic had a tremendous impact on the Chinese medicine industry in China. During the outbreak of the pandemic, the progress of research and development and new products were severely affected, as the pandemic slowed down the progress of many planned research and development projects and the iteration of new products. Production and supply chain was also severely disrupted with lockdown of various regions, resulting in disruptions in the supply of upstream and downstream materials. In the absence of normal transportation, logistics were also faced with the difficulties of not being able to send out the goods. In addition, marketing was hindered as the sales staff were unable to conduct business due to shutdown of most of our customers during the pandemic. Despite the gradual and effective control of the COVID-19 pandemic, there is still much uncertainty about the global economic recovery. With the continuing outbreak of Omicron variant of the pandemic, pharmaceutical companies delayed their pace of gradual resumption to varying degrees, and their operations were significantly affected by shutdowns, transport disruptions, logistics controls and travel restrictions, and the overall operational performance was dismal.

With China's tightening supervision and quality control on TCM decoction pieces (including Chinese medicine granules), and the declining sales in hospitals due to the COVID-19 pandemic, the Chinese medicine granules market in China is experiencing negative growth. As a result, the Group's performance in the concentrated granules market was not optimistic and the revenue from main business declined. The Group's revenue during the six months ended 30 June 2022 ("2022 Interim Period") was HK\$230.8 million, representing a decrease of HK\$72.0 million or 23.8% as compared to the corresponding period of last year. The Group reported a net loss of HK\$39.9 million for the 2022 Interim Period as compared with the net profit of HK\$12.0 million in the corresponding period of last year. Such net loss was mainly driven by the decrease in China CCMG sales.

The Group has been closely monitoring the latest development of the pandemic and fighting against the pandemic in joint hands with the people to tide over the difficulties. In the fifth wave of the pandemic, which brought the public healthcare system to the brink of paralysis, many confirmed patients could only be isolated at home. In view of this, the Group joined hands with the Democratic Alliance for the Betterment and Progress of Hong Kong and the Hong Kong Registered Chinese Medicine Practitioners Association for providing online free medical consultations. Through this campaign, the Group hoped to help alleviate the burden of the public healthcare system and care about the needs of people isolated at home by providing Chinese medicine to the people in need, thus satisfying the needs of the society. During this exceptional pandemic fighting time and even in the post pandemic future, the Group believes that consumers' health awareness will continue to increase, the demand for healthcare products will continue to rise and Chinese medicine will play a much more important role because of its active herbal ingredients and the powerful botanic science behind. The Group has taken the opportunity to actively promote Chinese healthcare products by offering anti-pandemic treatment kits in offline clinics, which has achieved promising results. Under these difficult circumstances, we are pleased that our Cough Formula products have been well received with relatively high sales, generating revenue for the Company.

## PROSPECTS

Looking ahead, China will continue to deepen the reform of pharmaceutical and healthcare system and push forward the implementation of new policies in the three-medicine linkage of “medical insurance, medical service and medicines”. On the one hand, the dynamic adjustment of the medical insurance catalogue, the fourth batch of centralized drug procurement, the first batch of medical devices with volume procurement and other implemented policies have further squeezed the profit margins of pharmaceutical enterprises, and pharmaceutical manufacturers are facing challenges such as pressure on restructuring and adjusting their marketing models. On the other hand, China has introduced a number of policies to encourage original ground medicine and innovative drugs, which support pharmaceutical enterprises to increase investment in research and development, together with continuously pushing forward the implementation of “Internet + medical insurance + medical service + medicines” related policies such as online medical insurance payment, Internet hospitals and electronic prescription circulation. The pharmaceutical industry urgently needs to change in the traditional development model, transform and upgrade to a more innovative and standardized direction, and pharmaceutical enterprises will suffer the pain of reform.

For the Chinese medicine granules segment, the release of the “Announcement on Ending the Pilot Scheme of Chinese Medicine Granules” marked the end of the pilot work of Chinese medicine granules and the commencement of the implementation of the national standards, ushering in the development period of the full release of Chinese medicine granules. In the short term, during the transitional period of the implementation of the national standards, the national and provincial standards of formula granules are not comprehensive, which will make the provincial formula granule enterprises have the opportunity to produce and sell other varieties of formula granules, and local protection will still exist. With the increased coverage of the national standards for formula granules, the formula granule industry is conducive to strengthening the market-oriented development. With our dedication in Chinese medicine modernization, the Group will continue to maintain the high quality of our CCMG products, discover new effective extracts from plants, and proactively develop innovative healthcare products featuring natural ingredients. The Group will continue to actively develop innovative healthcare products to enrich its product portfolio and focus more on marketing the Group’s competitive products online to reach a wider customer base in preparation for the recovery of the retail market.

The Group is deeply committed to the Chinese medicine sector while maintaining diversified development. In respect of store retail business, the Group will continue to optimize Nong’s® Chinese medicine clinics to provide modern Chinese medicine consultation services and improve the store network by using the store-for-store approach to meet the needs of the public, and will also enter the Greater Bay Area market in the Mainland by opening chain stores under franchise. The Group’s newest flagship store in Central is “NONG’s® Central Affiliated Clinics Grade Acupuncture Center (農本方®中環特約診所級針灸中心)”, further developing its physical retail business. Through a wide range of treatment services, complemented by high-end brands and quality customer services, the Group is committed to providing customers with the most professional, safe and effective Chinese medical treatment services. At the same time, the Group has allocated budget to continuously optimize the cloud-based consultation and management system launched by the full-range Nong’s® Chinese medicine clinics to provide a medical consultation analytics platform to conduct evidence-based medical research and big data analytics of Chinese medicine consultations and prescription cases, providing a brand new experience to Chinese medicine practitioners and patients to support the Chinese medicine business in all aspects. In the future, the Group will strengthen two major strategies in its operation: first, to reach out to small clinics and develop new sales points; second, to adhere to the Greater Bay Area layout by setting up an office in Shenzhen and hiring excellent people to manage the business, and strive to bring the business operation back to normal by the end of the third to fourth quarter. Meanwhile, the Group will continue to transform the online retailing business to cater for the younger generation with extensive social marketing initiatives, optimize the digitalization of the retail business to boost our revenue and create more value for our shareholders.

## APPRECIATION

I wish to express my sincere appreciation to our shareholders, customers and business partners for their unwavering support and trust over the years. I would also like to extend my heartfelt gratitude to my fellow Directors and our employees for their dedication.

By Order of the Board

**Chan Yu Ling, Abraham**  
Chairman

Hong Kong, 27 August 2022

# MANAGEMENT DISCUSSION AND ANALYSIS

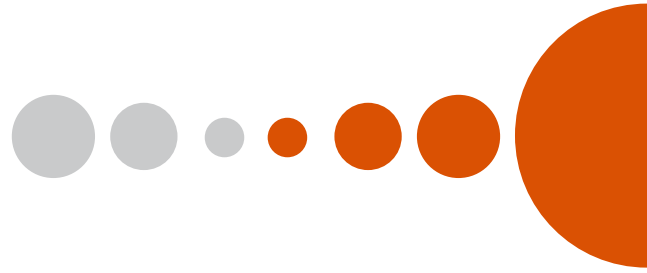
## FINANCIAL HIGHLIGHT

	Six months ended 30 June					
	2022		2021		Change	
	Revenue HK\$'000	% of total	Revenue HK\$'000	% of total	HK\$'000	%
China CCMG	77,429	33.6%	156,880	51.8%	(79,451)	(50.6)
HK and overseas CCMG	83,668	36.3%	72,697	24.0%	10,971	15.1
Chinese healthcare products	38,309	16.6%	39,358	13.0%	(1,049)	(2.7)
Nong's® (農本方®) Chinese medicine clinics	22,061	9.5%	23,897	7.9%	(1,836)	(7.7)
Plantation	9,293	4.0%	9,925	3.3%	(632)	(6.4)
<b>Total</b>	<b>230,760</b>	<b>100.0%</b>	<b>302,757</b>	<b>100.0%</b>	<b>(71,997)</b>	<b>(23.8)</b>
(Loss)/profit for the period	(39,903)		11,974		(51,877)	(433.2)

The Group's revenue for the 2022 Interim Period was HK\$230.8 million, representing a decrease of HK\$72.0 million or 23.8%, compared to HK\$302.8 million for the corresponding period in last year. The sales decrease was attributable to the decrease in revenue from China CCMG business during the 2022 Interim Period, as a result of the implementation of the new policy of national standards for CCMG.

The Group recorded a net loss for the 2022 Interim Period of HK\$39.9 million as compared with the net profit of HK\$11.9 million during the corresponding period in last year. Such net loss is mainly attributable to slowdown of CCMG business in China, and partly attributable to the one-off and non-cash impairment losses of the biological assets related to the Group's plantation segment because of a reduction in expected future output of raw Chinese herbs.





## China CCMG

During the 2022 Interim Period, the China CCMG market was significantly impacted by the implementation of the new national standards in November 2021. Therefore, the sales of CCMG in China was HK\$77.4 million, representing a decrease of HK\$79.5 million or 50.6% compared to HK\$156.9 million for the corresponding period in last year. The decrease in revenue from China CCMG business during the 2022 Interim Period was mainly attributable to (i) the temporary shortage of the number of prescribed national standards and provincial standards for CCMG, which has hindered the use of CCMG in prescriptions by hospitals and clinics, resulting in an adverse impact on sales during the 2022 Interim Period; (ii) the stocking up on CCMG products by some hospitals before the new policy was implemented in November 2021, which has reduced demand temporarily after the implementation of the new policy; and (iii) with the cost of CCMG produced under the prescribed national standards higher than before, the market still undergoing adjustment to adopt to the new higher pricing. As a result, the China CCMG sales business decreased especially in second quarter of 2022.

## Hong Kong and overseas CCMG

According to a market research performed in 2022, 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 2022 Interim Period, the direct sales of CCMG products in Hong Kong was HK\$83.7 million, representing an increase of HK\$11.0 million or 15.1% compared to HK\$72.7 million for the corresponding period in last year. In the 2022 Interim Period, the Group has improved both the segment's turnover as well as the gross profit through improved pricing strategy, and meeting the market demands by maintaining the stable supply of CCMG products even during the fifth wave of outbreak of COVID-19 pandemic in Hong Kong during the 2022 Interim Period, which caused temporary logistic hiccups to the Group.

During the 2022 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 2022 Interim Period, the Group continued to modify the clinic network by closing two clinics upon the expiring of their respective tenancy and started the revamp of another two clinics. Also, a new flagship clinic located in central CBD of Hong Kong has been opened in June 2022, which targets the customers with higher spending power. With the number of clinics in operation in Hong Kong decreased from 25 clinics as at 31 December 2021 to 22 clinics as at 30 June 2022, the revenue generated by the Group's Nong's® (農本方®) Chinese medicine clinics through the sales of CCMG products and provision of Chinese medical diagnostic services decreased to HK\$22.1 by HK\$1.8 million or 7.7% compared to HK\$23.9 million for the corresponding period in last year.

The revenue of Nong's clinics segment recorded a decrease that is proportional to the decrease in number of operating clinics, while the loss attributed by Nong's clinics segment increased during the 2022 Interim Period due to the increased depreciation of right-of-use assets.

The Group is seeking to explore the market opportunity in Great Bay Area by opening a clinic there by leveraging the Group's brand awareness in Hong Kong. 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					
	2022		2021		Change	
	Revenue HK\$'000	% of total	Revenue HK\$'000	% of total	HK\$'000	%
U.S.	14,633	38.2%	15,606	39.7%	(973)	(6.2)
Japan	4,149	10.8%	4,754	12.1%	(605)	(12.7)
Hong Kong	19,527	51.0%	18,998	48.2%	529	2.8
	<b>38,309</b>	<b>100.0%</b>	<b>39,358</b>	<b>100.0%</b>	<b>(1,049)</b>	<b>(2.7)</b>

During the 2022 Interim Period, revenue from sales of Chinese healthcare products in the U.S., Japan and Hong Kong markets was HK\$38.3 million in aggregate, representing a decrease of HK\$1.1 million or 2.7% as compared to HK\$39.4 million in the corresponding period in last year.

Among the Group's Chinese healthcare products segment, the Group's U.S. factory faced supply chain issues caused by the COVID-19 pandemic, which in turn limited its production volume. Therefore, the sales in the U.S. market recorded a decrease of HKD1.0 million, which is the major reason for the decrease of the Chinese healthcare products segment. The mild increase in sales in Hong Kong market is offset by the drop of sales revenue in Japan market due to depreciation of Japanese Yen.

The supply chain issues mentioned above has increased the production cost of the U.S. factory, thus decreased its gross profit and resulted in its net loss.

The Group has invested more resources during the 2022 Interim Period in the marketing and advertising of Chinese healthcare products, the expenses of which are recognized as an expense but should benefit the sales of the Group's various products in near future.

As the COVID-19 pandemic has lasted for more than two years, the Group believes that consumers' 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 the online platform in order to reach overseas markets with great growth potential.

## Plantation

For the 2022 Interim Period, the upstream plantation segment contributed HK\$9.3 million to the Group's overall revenue, representing a decrease from HK\$9.9 million recorded in the corresponding period in last year by HK\$0.6 million or 6.4%. The revenue from the plantation segment was mainly derived from the plantation and trading of raw Chinese herbs.

As the Group repositioned the plantation segment to be the Group's procurement centre of raw herbs, the segment has recorded a significant growth in inter-segment sales of raw herbs to the Group's Nanning CCMG factory. This strategic move is believed to benefit the Group as the stable supply of high-quality raw herbs that is reasonably priced is crucial to the success of CCMG market players. The plantation of the Group can access directly and easily to the local suppliers, thus the plantation can bargain for better prices.

## Profitability

	Six months ended 30 June		Change
	2022 HK\$'000	2021 HK\$'000	
Revenue	230,760	302,757	(23.8%)
Cost of sales	(80,655)	(106,353)	(24.2%)
Gross profit	150,105	196,404	(23.6%)
Gross profit margin	65.0%	64.9%	

The Group's gross profit margin for the 2022 Interim Period was 65.0%, representing an increase of 0.1% compared to 64.9% in the corresponding period in last year. The gross profit margin remained stable due to the combined effect of (i) the increase in gross profit margin in Hong Kong CCMG segment resulted from improved pricing strategy, which was offset by (ii) the decrease in gross profit margin in China CCMG segment because of the temporary challenging industry conditions, competitive trade terms being offered during the transitional period for national standards, and (iii) the drop in gross profit margin in the U.S. business unit, which experienced temporary supply chain issues during 2022 Interim Period.

## 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 2022 Interim Period, the Group's other income and gain was HK\$7.9 million, representing a decrease of HK\$6.9 million or 46.5% compared to HK\$14.8 million for the corresponding period in last year.

The decrease was mainly attributable to the Group recorded a net fair value loss on biological assets of HK\$14.1 million for the 2022 Interim Period, which is included in the other expenses, whereas the fair value gain on biological asset was HK\$4.4 million in the corresponding period in last year.

## Selling and distribution expenses

The Group's selling and distribution expenses 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 2022 Interim Period, the Group's selling and distribution expenses was HK\$82.4 million, representing a decrease of HK\$10.1 million or 10.9% compared to HK\$92.4 million for the corresponding period in last year. The decrease was mainly attributable to (i) decrease in the PRC marketing expenses as the China CCMG market was undergoing the adoption to the new national standards and marketing budget was reduced conservatively, and (ii) the lower storage costs in proportion to the drop of China CCMG turnover.

For the 2022 Interim Period, selling and distribution expenses as a percentage to revenue increased from 30.5% in last corresponding period to 35.7%. With the significant sales drop in the 2022 Interim Period, the Group has reacted promptly and controlled some of the variable marketing expenses, but some selling and distribution expenses, which are fixed in nature, may not be able to be adjusted accordingly without damaging the Group's market position, which are important for the expected sales rebound after the end of transitional period of China CCMG market.

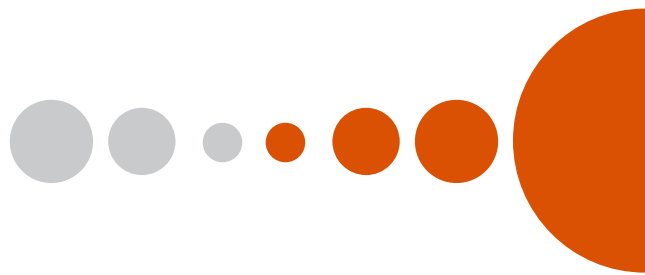
## Administrative expenses

	Six months ended 30 June			
	2022 HK\$'000	2021 HK\$'000	Change HK\$'000	%
Clinics operating expenses	16,831	18,000	(1,169)	(6.5)
Research and development costs	8,965	11,926	(2,961)	(24.8)
General administrative expenses	54,210	52,360	1,850	3.5
Total administrative expenses	80,006	82,286	(2,280)	(2.8)

The Group's administrative expenses included both operating expenses for clinics and general administrative expenses. The expenses 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 2022 Interim Period, the Group's operating expenses for clinics was HK\$16.8 million, representing a decrease of HK\$1.2 million or 6.5% compared to HK\$18.0 million for the corresponding period in last year. The decrease was mainly attributable to the modification and downsizing of clinic network and in Hong Kong. The number of clinics in operation in Hong Kong decreased from 25 clinics as at 31 December 2021 to 22 clinics as at 30 June 2022.

The research and development costs for the 2022 Interim Period decreased by HK\$3.0 million or 24.8%, mainly due to the decrease in service fee paid to external research partners as development progress of certain projects was slowed down during the 2022 Interim Period. The Group's general administrative expenses for the 2022 Interim Period increased by HK\$1.9 million or 3.5%, which was mainly due to the increase in headcount of staff in the Group's corporate marketing and product development functions.



## Other expenses

The Group's other expenses mainly comprised of fair value loss on biological assets, loss on disposal of property, plant and equipment, net foreign exchange loss and voluntary charity donation. For the 2022 Interim Period, the Group's other expenses was HK\$18.4 million, representing an increase of HK\$16.1 million or 687.2% compared to HK\$2.3 million for the corresponding period in last year. The significant increase was mainly attributable to the net fair value loss on biological assets of HK\$14.1 million.

## Finance costs

For the 2022 Interim Period, the Group's finance costs amounted to HK\$14.0 million, representing an increase of HK\$0.5 million or 3.7% as compared to HK\$13.5 million for the corresponding period in last year. The increase was mainly due to the raise of market interest rate, which caused an increase in the Group's borrowing cost during the 2022 Interim Period.

## Income tax expense

During the 2022 Interim Period, the Group's income tax expenses decreased slightly from HK\$5.4 million in the corresponding period in last year to HK\$5.2 million for the 2022 Interim Period. The income tax expense was arose from the profitable subsidiaries. The slight decrease was mainly due to the decrease in taxable profit of certain subsidiaries of the Group during the 2022 Interim Period.

## Loss for the period

As a result of the foregoing, the Group recorded a net loss for the 2022 Interim Period of HK\$39.9 million as compared with the net profit of HK\$12.0 million during the corresponding period in last year. Such net loss is mainly attributable to the drop in both sales and gross profit of China CCMG segment and the net fair value loss on biological assets of the plantation segment.

## 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 2022 Interim Period, the total capital expenditure was HK\$43.9 million (six months ended 30 June 2021: HK\$26.1 million). The capital expenditures during the 2022 Interim Period was mainly incurred for new production equipment for meeting the new national standards in the Nanning factory.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group had net current liabilities of HK\$87.0 million (31 December 2021: net current liabilities of HK\$54.5 million), which included cash and cash equivalent of HK\$39.5 million (31 December 2021: HK\$59.7 million) and interest-bearing bank and other borrowings amounting to HK\$412.9 million (31 December 2021: HK\$499.7 million). As at 30 June 2022, the Group's unused bank facilities including overdraft amounted to HK\$151.8 million (31 December 2021: HK\$67.7 million).

## TREASURY POLICY AND RISK MANAGEMENT

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities. As at 30 June 2022, the Group's credit risk is primarily attributable to trade receivables, deposits, bank deposits with original maturity over three months and bank balances and cash. As at 30 June 2021 and 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.



## GEARING RATIO

As at 30 June 2022, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank and other borrowings by total equity, was 1.2 (31 December 2021: 1.2). The gearing ratio remaining stable during the six months ended 30 June 2022 was mainly as a result of the decrease in interest-bearing bank and other borrowings which is offset by the decrease in the equity base of the Company after the reduction of retained profits being recognized.

## 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 or instruments to hedge against the fluctuations in exchange rate between Renminbi and Hong Kong dollars. However, the Group regularly monitors foreign exchange exposure and assesses if there is a need to hedge against significant foreign currency exposure from time to time.

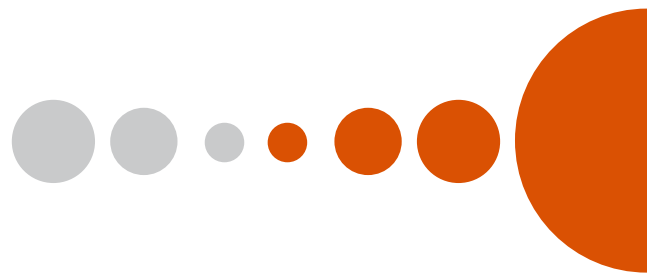
## HUMAN RESOURCES

As at 30 June 2022, the Group had a total of 621 employees (31 December 2021: 675 employees). During the six months ended 30 June 2022, total staff costs excluding Directors' remuneration was HK\$43.3 million (six months ended 30 June 2021: HK\$51.5 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 security for interest-bearing bank and other borrowings as at 31 December 2021 and 30 June 2022:

	Carrying value	
	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Property, plant and equipment	177,235	158,870
Right-of-use assets	34,965	37,826
Financial assets at fair value through profit or loss	18,762	18,562
Inventories	—	42,858
Trade and bills receivables	16,962	54,775
Pledged bank deposits	17,028	25,383
Investment Property	6,275	6,560
	<b>271,227</b>	<b>344,834</b>



## CAPITAL COMMITMENT

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The Group had the following capital commitment as at 31 December 2021 and 30 June 2022:

	<b>30 June 2022</b>	31 December 2021
	HK\$'000	HK\$'000
Land and Buildings	11,754	28,542
Plant and machinery	7,990	1,369
	<b>19,744</b>	29,911

## MATERIAL ACQUISITIONS, DISPOSALS AND MATERIAL INVESTMENT

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures, and no material investment was held by the Group during the six months ended 30 June 2022.

## CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 30 June 2022.

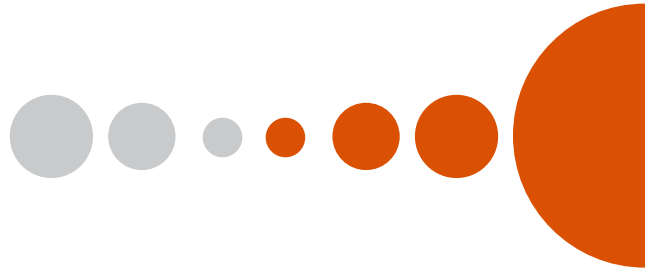
## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK\$288.4 million (the "Net Proceeds"). As at 30 June 2022, the Group had utilised approximately HK\$282.0 million of the Net Proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	Total approximate amount of Net Proceeds (in HK\$ million)	Approximate percentage of Net Proceeds	Approximate amount utilised as at 30 June 2022 (in HK\$ million)	Approximate amount utilised during the Interim Period 2022 (in HK\$ million)	Approximate amount unutilised as at 30 June 2022 (in HK\$ million)	Expected timeline for intended use
To expand manufacturing facilities and enhance existing production lines	86.5	30%	86.5	—	—	—
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	72.1	—	—	—
To expand distribution network into new target cities in the PRC	57.7	20%	57.7	—	—	—
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	36.9	—	6.4	by December 2022
Additional working capital of the Group	28.8	10%	28.8	—	—	—
	288.4	100%	282.0	—	6.4	

There was a delay in application in the use of Net Proceeds as to funding the development and launch of two new proprietary Chinese medicine products. The reason for the delay is due to the fact that research and development of new products were still in progress and is expected to take a longer time than previous estimation.





Among the remaining unutilised portion of the Net Proceeds, HK\$4.3 million has been allocated to the development of pharmaceutical products for treating irritable bowel syndrome, known as “仁術腸樂顆粒” (the “**Product**”). On 8 October 2020, the Group entered into an asset sale agreement (the “**Asset Sale Agreement**”) with BAGI Research Limited, a company indirectly and wholly-owned by Mr. Chan Yu Ling, Abraham, an executive director and controlling shareholder of the Company, to sell the relevant assets of the development of the Product (the “**Asset Disposal**”). As the conditions precedent in the Asset Sale Agreement were not fully fulfilled and the parties to the Asset Sale Agreement did not agree on any further extension of the long stop date for satisfaction of the conditions precedents under the Asset Sale Agreement, the Asset Sale Agreement lapsed on 30 September 2021 and the sale of the development of the Product would no longer proceed. As such, the Group will continue to apply the unutilised portion of the Net Proceeds allocated to the development of the Product according to the disclosure of the Company’s listing prospectus. For further information in relation to the lapse of connected transaction in relation to Asset Disposal, please refer to the announcements of the Company dated 8 October 2020, 25 March 2021 and 5 October 2021.

# DISCLOSURE OF INTERESTS

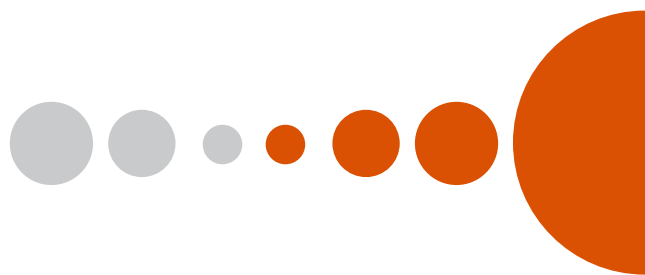
## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2022, the Directors and chief executive of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Nature of Interest	Number of Ordinary Shares held or interested <sup>(1)</sup>	Percentage of the Company's issued share capital
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Interest of controlled corporations	178,854,830 (L) <sup>(2)(3)(4)</sup>	45.18%
	Beneficial owner	36,108,267 (L)	9.12%
	Interest of spouse	4,376,050 (L) <sup>(5)</sup>	1.11%
	Beneficiary of a trust	30,000 (L) <sup>(8)</sup>	0.008%
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Interest of a controlled corporation	77,349,750 (L) <sup>(6)</sup>	19.54%
	Beneficial owner	4,361,050 (L)	1.10%
	Interest of spouse	137,643,347 (L) <sup>(7)</sup>	34.77%
	Beneficiary of a trust	15,000 (L) <sup>(8)</sup>	0.004%
Dr. Norimoto Hisayoshi	Beneficial owner	370,000 (L)	0.09%
Mr. Ho Kwok Wah, George	Beneficial owner	18,000 (L)	0.005%
	Beneficiary of a trust	2,000 (L) <sup>(8)</sup>	0.001%
Dr. Leung Lim Kin, Simon	Beneficial owner	18,000 (L)	0.005%
	Beneficiary of a trust	2,000 (L) <sup>(8)</sup>	0.001%
Prof. Tsui Lap Chee	Beneficial owner	18,000 (L)	0.005%
	Beneficiary of a trust	2,000 (L) <sup>(8)</sup>	0.001%

Notes:

- The letter "L" denotes the person's long position in such securities.
- Mr. Abraham Chan beneficially owns 50% of the issued share capital of Joint Partners Investments Limited ("Joint Partners"), which in turn wholly owns the entire issued capital of PuraPharm Corporation Limited ("PuraPharm Corp"), a limited liability company incorporated in the British Virgin Islands on 5 May 1998. PuraPharm Corp owns 77,349,750 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by PuraPharm Corp.
- Mr. Abraham Chan beneficially owns the entire issued share capital of Fullgold Development Limited ("Fullgold Development"), which in turn owns 81,929,000 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Fullgold Development.
- Mr. Abraham Chan beneficially owns the entire issued share capital of Gold Sparkle Limited ("Gold Sparkle"), which in turn owns 19,576,080 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Gold Sparkle.
- Mr. Abraham Chan is the spouse of Ms. Viola Man. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Ms. Viola Man.



6. Ms. Viola Man beneficially owns 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued capital of PuraPharm Corp. PuraPharm Corp owns 77,349,750 Shares. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by PuraPharm Corp.
7. Ms. Viola Man is the spouse of Mr. Abraham Chan. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by Mr. Abraham Chan.
8. These shares represent Shares granted to such directors pursuant to the Share Award Scheme, which are held on trust by the Share Award Scheme Trust until the Shares are vested. For further detail, please refer to the paragraph headed "Share Award Scheme" below.
9. All interests are calculated based on the total Shares in issue as at 30 June 2022, being 395,897,275.

Save as disclosed above, as at 30 June 2022, none of the Directors, chief executive of the Company and/or their respective associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2022, so far as was known to the Directors, the following entity (other than the Director or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of entity	Nature of Interest	Number of Shares held or interested <sup>(1)</sup>	Percentage of the Company's issued share capital
PuraPharm Corp	Beneficial owner	77,349,750 (L) <sup>(2)</sup>	19.54%
Joint Partners	Interest of a controlled corporation	77,349,750 (L) <sup>(2)(3)</sup>	19.54%
Fullgold Development	Beneficial owner	81,929,000 (L)	20.69%

Notes:

1. The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.
2. Mr. Abraham Chan and Ms. Viola Man beneficially own 50% and 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued share capital of PuraPharm Corp.
3. PuraPharm Corp is wholly owned by Joint Partners. By virtue of the SFO, Joint Partners is deemed to be interested in the Shares held by PuraPharm Corp.
4. All interests are calculated based on the total Shares in issue as at 30 June 2022, being 395,897,275.

Save as disclosed above, as at 30 June 2022, no person, other than a Director or chief executive of the Company, had registered an interest or short position in the Shares, underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## SHARE OPTION SCHEME

On 12 June 2015, the Share Option Scheme was adopted by the then Shareholders and will be valid and effective for a period of 10 years from the adoption date on 12 June 2015 and shall expire on the tenth anniversary (i.e. 12 June 2025). 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.

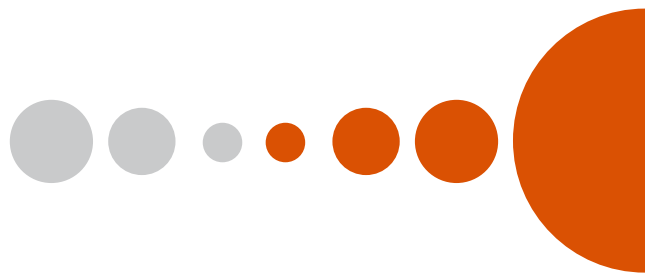
The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must 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. The period within which payments or calls must or maybe made or loans for such purposes must be repaid for the amount payable on acceptance of the option under the rules of Share Option Scheme is 30 days after the relevant date of grant of the options.

As at 30 June 2022, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 16,329,091.

On 9 May 2019, a total of 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 closing price of the share immediately before the date of grant is HK\$2.267. As a result of the completion of rights issue on 2 March 2020, 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 outstanding Share Options granted on 9 May 2019 were adjusted. The adjusted exercise price of the outstanding Share Options granted on 9 May 2019 was HK\$2.3 per share.

On 24 July 2020, a total of 16,124,000 options were granted to five directors and certain employees of the company, entitling them to subscribe for a total of 16,124,000 shares at the exercise price of HK\$0.8 per share, conditional upon the grantees accepting the grant. The closing price of the share immediately before the date of grant is HK\$0.69. Among the options resolved to grant by the Board, 4 employees did not accept the grant and out of the 16,124,000 options, resulting 800,000 options not being granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

During the 2022 Interim Period, no options were granted by the Board. A total of 1,004,334 options were exercised, a total of 2,133,333 options were lapsed and a total of 1,746,666 options were cancelled during the 2022 Interim Period.



Details of the options under the Share Option Scheme are as follows:

Grantees	Name of Director	Grant date	Exercise price	Vesting date	As at 1 January 2022	Number of options granted during the 2022 Interim Period	Exercised during the 2022 Interim Period	Cancelled during the 2022 Interim Period	Lapsed during the 2022 Interim Period	As at 30 June 2022	Weighted average closing price of Shares immediately before the date which the options were exercised HK\$
Directors	Mr. Chan Yu Ling, Abraham	9 May 2019	HK\$2.3	10 May 2020	1,085,228	—	—	—	—	1,085,228	—
				10 May 2021	1,085,228	—	—	—	—	1,085,228	—
		24 Jul 2020	HK\$0.8	23 Jul 2021	1,740,000	—	—	—	—	1,740,000	—
				23 Jul 2022	1,740,000	—	—	—	—	1,740,000	—
	Ms. Man Yee Wai, Viola	9 May 2019	HK\$2.3	10 May 2020	354,275	—	—	—	—	354,275	—
				10 May 2021	354,275	—	—	—	—	354,275	—
		24 Jul 2020	HK\$0.8	23 Jul 2021	1,740,000	—	—	—	—	1,740,000	—
				23 Jul 2022	1,740,000	—	—	—	—	1,740,000	—
	Mr. Norimoto Hisayoshi	09 May 2019	HK\$2.3	10 May 2020	44,284	—	—	—	—	44,284	—
				10 May 2021	44,284	—	—	—	—	44,284	—
				10 May 2022	44,284	—	—	—	—	44,284	—
				10 May 2023	44,284	—	—	—	—	44,284	—
		24 Jul 2020	HK\$0.8	23 Jul 2021	66,667	—	—	—	—	66,667	—
				23 Jul 2022	66,667	—	—	—	—	66,667	—
23 Jul 2023				66,666	—	—	—	—	66,666	—	
Mr. Chan Kin Man, Eddie (retired on 28 May 2021)	9 May 2019	HK\$2.3	10 May 2020	1,085,228	—	—	—	—	1,085,228	—	
			10 May 2021	1,085,228	—	—	—	—	1,085,228	—	
	24 Jul 2020	HK\$0.8	23 Jul 2021	871,000	—	—	—	—	871,000	—	
			23 Jul 2022	871,000	—	—	—	—	871,000	—	
Dr. Tsoi Kam Biu, Alvin (retired on 28 May 2021)	9 May 2019	HK\$2.3	10 May 2020	354,275	—	—	—	—	354,275	—	
			10 May 2021	354,275	—	—	—	—	354,275	—	
	24 Jul 2020	HK\$0.8	23 Jul 2021	871,000	—	(871,000)	—	—	—	1.44	
			23 Jul 2022	871,000	—	—	—	—	871,000	—	
Mr. Cheong Shin Keong (retired on 31 March 2022)	24 Jul 2020	HK\$0.8	23 Jul 2021	2,000,000	—	—	—	(2,000,000)	—	—	
			23 Jul 2022	1,480,000	—	—	(1,480,000)	—	—	—	
Sub-total for Directors					20,059,150	—	(871,000)	(1,480,000)	(2,000,000)	15,708,150	
Employees	9 May 2019	HK\$2.3	10 May 2020	88,569	—	—	—	—	—	88,569	—
			10 May 2021	88,569	—	—	—	—	—	88,569	—
			10 May 2022	88,569	—	—	—	—	—	88,569	—
			10 May 2023	88,568	—	—	—	—	—	88,568	—
		24 July 2020	HK\$0.8	23 July 2021	266,667	—	(133,334)	—	(133,333)	—	1.44
				23 July 2022	266,667	—	—	(133,333)	—	133,334	—
			23 July 2023	266,666	—	—	(133,333)	—	133,333	—	
				800,000	—	(133,334)	(266,666)	(133,333)	266,667		
Sub-total for Employees					1,154,275	—	(133,334)	(266,666)	(133,333)	620,942	
Total					21,213,425	—	(1,004,334)	(1,746,666)	(2,133,333)	16,329,092	



## SHARE AWARD SCHEME

The Board of Directors (the "Board") 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:

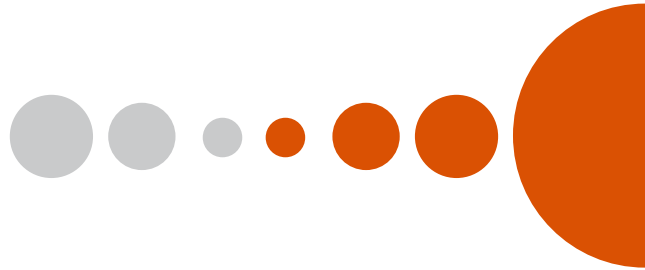
1. to recognise and motivate the contributions by certain Eligible Award Participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;
2. to attract suitable personnel for further development of the Group; and
3. to provide certain Eligible 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 administering the Share Award Scheme. The Share Award Scheme Trust will acquire the Company's shares from the Stock Exchange, with a maximum amount of funds to be allocated by the Board, and hold such Shares 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. During the 2022 Interim Period, no share was purchased by the Share Award Scheme Trust.

As at 30 June 2022, the Share Award Scheme Trust holds 844,335 (31 December 2021: 959,335) shares of the Company. During the six months ended 30 June 2022, no share (six months ended 30 June 2021: Nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 115,000 shares were vested (six months ended 30 June 2021: 956,665).

The Group recognized a net share award expense of HK\$39,000 during the 2022 Interim Period (six months ended 30 June 2021: HK\$169,000).



## 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 2022, save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

Pursuant to provision C.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 C.2.1 of the Code.

## COMPETING INTEREST

For the six months ended 30 June 2022, 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. The Directors are of the view that the controlling shareholders have been in compliance with the deed of non-competition during the 2022 Interim Period.

## 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 Prof. Tsui Lap Chee. 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 2022 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 2022 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 2022.

## **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 2022.

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

There were no significant event affecting the Company nor any of its subsidiaries after the end of the 2022 Interim Period up to the date of this report which requires disclosure in this report.

## **INTERIM DIVIDEND**

The Board resolved not to recommend any payment of interim dividend for the 2022 Interim Period.

# INDEPENDENT REVIEW REPORT



To the board of directors of PuraPharm Corporation Limited  
(Incorporated in Cayman Island with limited liability)

## INTRODUCTION

We have reviewed the interim financial information set out on pages 24 to 62, which comprise the condensed consolidated statement of financial position of PuraPharm Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at 30 June 2022 and the related condensed consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the six months period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young  
Certified Public Accountants  
Hong Kong  
27 August 2022

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
REVENUE	5	230,760	302,757
Cost of sales		(80,655)	(106,353)
Gross profit		150,105	196,404
Other income and gains	5	7,899	14,763
Selling and distribution expenses		(82,358)	(92,444)
Administrative expense		(80,006)	(82,286)
Reversal of impairment/(impairment) of financial assets, net		2,060	(3,221)
Other expenses		(18,405)	(2,338)
Finance costs	7	(13,994)	(13,492)
(LOSS)/PROFIT BEFORE TAX	6	(34,699)	17,386
Income tax expense	8	(5,204)	(5,412)
(LOSS)/PROFIT FOR THE PERIOD		(39,903)	11,974
Attributable to owners of the parent		(39,903)	11,974
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT (expressed in HK cents per share)			
Basic			
— For (loss)/profit for the period	10	(10.12)	3.04
Diluted			
— For (loss)/profit for the period	10	(10.12)	3.04
(LOSS)/PROFIT FOR THE PERIOD		(39,903)	11,974
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		(8,609)	839
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(8,609)	839
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD		(48,512)	12,813
Attributable to owners of the parent		(48,512)	12,813

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	334,381	344,114
Investment properties		6,275	6,560
Right-of-use assets		112,062	116,901
Goodwill	12	20,993	20,993
Other intangible assets		39,610	41,062
Financial assets at fair value through profit or loss	13	18,762	18,562
Biological assets	15	19,205	31,048
Prepayments for non-current assets	17	7,320	5,283
Deferred tax assets		10,971	10,483
Total non-current assets		569,579	595,006
<b>CURRENT ASSETS</b>			
Inventories	14	187,763	166,039
Biological assets	15	22,767	33,759
Trade and bills receivables	16	172,393	261,406
Prepayments, deposits and other receivables	17	70,977	62,351
Tax recoverable		471	2,248
Amount due from related parties	25	1,264	—
Pledged bank deposits	18	17,028	25,383
Cash and cash equivalents	18	39,520	59,671
Total current assets		512,183	610,857
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	19	150,649	140,679
Other payables and accruals		92,743	97,811
Interest-bearing bank and other borrowings	20	330,829	407,671
Lease liabilities		15,856	13,239
Tax payable		7,321	3,578
Government grants		1,833	2,336
Total current liabilities		599,231	665,314
NET CURRENT LIABILITIES		(87,048)	(54,457)
TOTAL ASSETS LESS CURRENT LIABILITIES		482,531	540,549

	Notes	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>482,531</b>	540,549
<b>NON-CURRENT LIABILITIES</b>			
Other payables and accruals		15,012	24,157
Interest-bearing bank and other borrowings	20	82,088	91,997
Lease liabilities		27,104	19,052
Government grants		961	1,174
Deferred tax liabilities		3,351	2,611
<b>Total non-current liabilities</b>		<b>128,516</b>	138,991
<b>Net assets</b>		<b>354,015</b>	401,558
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	21	306,820	306,042
Shares held for share award scheme	22(b)	(2,859)	(3,221)
Reserves	23	50,054	98,737
<b>Total equity</b>		<b>354,015</b>	401,558

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent									
	Share capital HK\$'000 (note 21)	Share premium HK\$'000 (note 21)	Shares held for share award scheme HK\$'000 (note 22(b))	Reserve for share award and share option HK\$'000 (note 22)	Merger reserve HK\$'000 (note 23)	Surplus reserves HK\$'000 (note 23)	Capital reserve HK\$'000 (note 23)	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 31 December 2021 (audited)	306,042	221,189	(3,221)	10,019	1,814	29,320	(7,505)	6,252	(162,352)	401,558
Loss for the period	—	—	—	—	—	—	—	—	(39,903)	(39,903)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(8,609)	—	(8,609)
Total comprehensive expense for the period	—	—	—	—	—	—	—	(8,609)	(39,903)	(48,512)
Recognition of equity-settled share option expenses	—	—	—	606	—	—	—	—	—	606
Recognition of equity-settled share award expenses	—	—	—	49	—	—	—	—	—	49
Exercising of share option	778	315	—	(290)	—	—	—	—	—	803
Forfeiting of share option	—	—	—	(1,098)	—	—	—	—	619	(479)
Forfeiting of award shares granted under Share Award Scheme	—	—	—	(10)	—	—	—	—	—	(10)
Transfer of vested shares under Share Award Scheme	—	67	362	(429)	—	—	—	—	—	—
Appropriation to surplus reserve	—	—	—	—	—	2,240	—	—	(2,240)	—
At 30 June 2022 (unaudited)	306,820	221,571*	(2,859)	8,847*	1,814*	31,560*	(7,505)*	(2,357)*	(203,876)*	354,015

Attributable to owners of the parent

	Share capital HK\$'000 (note 21)	Share premium HK\$'000 (note 21)	Shares held for share award scheme HK\$'000 (note 22(b))	Reserve for share award and share option HK\$'000 (note 22)	Merger reserve HK\$'000 (note 23)	Surplus reserves HK\$'000 (note 23)	Capital reserve HK\$'000 (note 23)	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 31 December 2020 (audited)	306,042	220,658	(6,258)	10,083	1,814	29,164	(7,505)	(2,021)	(40,319)	511,658
Profit for the period	—	—	—	—	—	—	—	—	11,974	11,974
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	839	—	839
Total comprehensive income for the period	—	—	—	—	—	—	—	839	11,974	12,813
Recognition of equity-settled share option expenses	—	—	—	2,386	—	—	—	—	—	2,386
Recognition of equity-settled share award expenses	—	—	—	387	—	—	—	—	—	387
Forfeiting of share option	—	—	—	(31)	—	—	—	—	—	(31)
Forfeiting of award shares granted under Share Award Scheme	—	—	—	(218)	—	—	—	—	—	(218)
Transfer of vested shares under Share Award Scheme	—	531	3,037	(3,568)	—	—	—	—	—	—
At 30 June 2021 (unaudited)	306,042	221,189*	(3,221)	9,039*	1,814*	29,164*	(7,505)*	(1,182)*	(28,345)*	526,995

\* These reserve accounts comprise the consolidated reserves of HK\$50,054,000 (30 June 2021: HK\$224,174,000) in the interim condensed consolidated statement of financial position as at 30 June 2022.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss)/profit before tax:		<b>(34,699)</b>	17,386
Adjustments for:			
Finance costs	7	<b>13,994</b>	13,492
Foreign exchange difference, net	6	<b>867</b>	1,580
Fair value loss/(gain) on biological assets, net	6	<b>14,066</b>	(4,438)
Loss on disposal of property, plant and equipment	6	<b>—</b>	9
Fair value gain on financial assets at fair value through profit or loss	5	<b>(200)</b>	—
Share option expense	22(a)	<b>127</b>	2,355
Equity-settled share award expense	22(b)	<b>39</b>	169
Depreciation of property, plant and equipment	6	<b>16,494</b>	14,652
Depreciation of right-of-use assets	6	<b>10,076</b>	11,131
Amortisation of other intangible assets	6	<b>1,738</b>	2,467
Impairment of property, plant and equipment (Reversal of impairment)/impairment of trade and bills receivables, net	6	<b>(2,060)</b>	3,221
Write-down of inventories to net realisable value	6	<b>230</b>	2,945
Bank interest income	5	<b>(264)</b>	(64)
		<b>20,408</b>	65,088
(Increase)/decrease in inventories		<b>(17,044)</b>	19,599
Increase in biological assets		<b>(4,286)</b>	(11,681)
Decrease/(increase) in trade and bills receivables		<b>83,485</b>	(17,530)
(Increase)/decrease in prepayments, deposits and other receivables		<b>(10,738)</b>	811
Increase/(decrease) in trade and bills payables		<b>16,065</b>	(13,622)
Decrease in government grants		<b>(619)</b>	(1,304)
Decrease in other payables and accruals		<b>(12,720)</b>	(13,794)
Cash generated from operations		<b>74,551</b>	27,567
Interest received		<b>264</b>	64
Hong Kong income tax paid		<b>(3,632)</b>	(3,392)
Overseas profits tax paid		<b>(930)</b>	(271)
PRC corporate income tax reduction and refund		<b>4,800</b>	832
Net cash flows generated from operating activities		<b>75,053</b>	24,800

	Notes	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Net cash flows generated from operating activities		75,053	24,800
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		(11,656)	(26,319)
Proceeds from disposal of items of property, plant and equipment and other intangible assets		908	—
Addition to intangible assets		(1,265)	(7,572)
Decrease in pledged deposits		8,355	7,996
Net cash flows used in investing activities		(3,658)	(25,895)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in amount due from related parties		(1,264)	—
Proceeds from issue of shares upon exercise of share options		803	—
New bank loans		103,641	141,388
Repayment of bank loans		(182,822)	(124,284)
Increase/(decrease) in overdrafts		6,965	(6,958)
Interest paid		(13,994)	(13,492)
Principal portion of lease payment		(9,015)	(16,698)
Net cash flows used in financing activities		(95,686)	(20,044)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(24,291)	(21,139)
Cash and cash equivalents at beginning of period		59,671	91,401
Effect of foreign exchange rate changes, net		4,140	3,340
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>39,520</b>	<b>73,602</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	18	39,520	73,602

# 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 2022 (the "Reporting Period"), the Group is 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 2022 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 2021.

As at 30 June 2022, the Group had net current liabilities of HK\$87.0 million (31 December 2021: HK\$54.5 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 implementing 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 2022, the Group had unutilised bank facilities amounting to HK\$151.8 million (note 20), which could be utilised to repay the total principal and interest due upon the respective repayment dates. Based on the past experience and maturity of the aforesaid facilities, the Directors consider it is highly probable that the Group can withdraw adequate amount of short-term bank loans for another year 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 over 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 the Group's internally generated funds and unutilised bank facilities, 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 condensed consolidated financial statements of the Group for the six months ended 30 June 2022 on a going concern basis.

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3  
Amendments to HKAS 16  
Amendments to HKAS 37  
*Annual Improvements to HKFRSs  
2018–2020*

*Reference to the Conceptual Framework  
Property, Plant and Equipment: Proceeds before Intended Use  
Onerous Contracts — Cost of Fulfilling a Contract  
Amendments to HKFRS 1, HKFRS 9, Illustrative Examples  
accompanying HKFRS 16, and HKAS 41*

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.

### 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 difference, 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.

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

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 2022 and 2021.

### Six months ended 30 June 2022 (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
<b>Segment revenue:</b>							
Revenue from external customers	77,429	83,668	38,309	22,061	9,293	—	230,760
Intersegment sales	56,829	4,900	676	—	62,041	(124,446)	—
	134,258	88,568	38,985	22,061	71,334	(124,446)	230,760
<b>Segment results</b>	2,315	23,594	1,482	(2,376)	(11,837)	—	13,178
Reconciliations:							
Interest income							264
Foreign exchange difference, net							(867)
Equity-settled share award and Share option expense							(166)
Finance costs (other than interest on lease liabilities)							(13,310)
Corporate and other unallocated expenses							(33,798)
Loss before tax							(34,699)
Income tax expense							(5,204)
<b>Net loss</b>							(39,903)
<b>Other segment information:</b>							
Depreciation and amortisation of property, plant and equipment and other intangible assets	6,884	1,300	2,225	4,730	3,093	—	18,232
Depreciation of right-of-use assets	1,882	—	3,228	3,986	980	—	10,076
Write-down of inventories to net realisable value	103	—	57	—	70	—	230
Reversal of impairment loss on trade and bills receivables, net	(1,753)	272	335	—	(914)	—	(2,060)
Government grants	4,062	—	132	640	923	—	5,757
Capital Expenditure*	22,884	90	10,792	10,147	—	—	43,913

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### Six months ended 30 June 2021 (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
<b>Segment revenue:</b>							
Revenue from external customers	156,880	72,697	39,358	23,897	9,925	—	302,757
Intersegment sales	44,617	1,838	867	—	1,164	(48,486)	—
	201,497	74,535	40,225	23,897	11,089	(48,486)	302,757
<b>Segment results</b>	29,716	17,467	10,794	(1,963)	(1,653)	—	54,361
Reconciliations:							
Interest income							64
Foreign exchange difference, net							(1,580)
Equity-settled share award and Share option expense							(2,524)
Finance costs (other than interest on lease liabilities)							(12,203)
Corporate and other unallocated expenses							(20,732)
Profit before tax							17,386
Income tax expense							(5,412)
<b>Net profit</b>							11,974
<b>Other segment information:</b>							
Depreciation and amortisation of property, plant and equipment and other intangible assets	7,231	1,369	2,017	4,136	2,366	—	17,119
Depreciation of right-of-use assets	4,127	578	2,701	2,770	955	—	11,131
Loss on disposal of items of property, plant and equipment	9	—	—	—	—	—	9
Write-down of inventories to net realisable value	2,945	—	—	—	—	—	2,945
Impairment loss on property, plant and equipment	56	—	—	75	52	—	183
Impairment loss on trade and bills receivables, net	3,221	—	—	—	—	—	3,221
Capital Expenditure*	17,603	865	655	4	6,990	—	26,117

\* Capital expenditure consists of additions to right-of use assets amounted to HK\$19,902,000 (six months ended 30 June 2021: HK\$6,627,000).

## 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	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sales of CCMG products	177,598	247,311
Sales of Chinese healthcare products	38,309	39,358
Sales of raw Chinese herbs	9,293	9,925
Rendering of Chinese medical diagnostic services (the "Diagnostic Services")	5,560	6,163
	<u>230,760</u>	<u>302,757</u>



## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Disaggregated revenue information

Segments	For the six months ended 30 June					
	2022			2021		
	Sale of goods	Diagnostic services	Total	Sale of goods	Diagnostic services	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Types of goods or services</b>						
Sale of goods	225,200	—	225,200	296,594	—	296,594
Rendering of services	—	5,560	5,560	—	6,163	6,163
Total revenue from contracts with customers	225,200	5,560	230,760	296,594	6,163	302,757
<b>Geographical markets</b>						
Hong Kong	115,733	5,560	121,293	107,042	5,793	112,835
Mainland China	87,598	—	87,598	168,848	370	169,218
Other countries/regions	21,869	—	21,869	20,704	—	20,704
Total revenue from contracts with customers	225,200	5,560	230,760	296,594	6,163	302,757
<b>Timing of revenue recognition</b>						
Goods transferred at a point in time	225,200	—	225,200	296,594	—	296,594
Services transferred over time	—	5,560	5,560	—	6,163	6,163
Total revenue from contracts with customers	225,200	5,560	230,760	296,594	6,163	302,757

## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Disaggregated revenue information (Continued)

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income and gains		
Government grants*	5,757	6,435
Fair value gain on biological assets, net	—	4,438
Fair value gain on financial assets at fair value through profit or loss	200	—
Gain from the sale of equipment and accessories	—	1,035
Reversal of over-provision of litigations	—	1,553
Bank interest income	264	64
Others	1,678	1,238
	<b>7,899</b>	<b>14,763</b>

\* The amount represented government grants from the relevant authorities in the PRC and Hong Kong government, which consisted primarily of the PRC subsidies and compensation for operation finance costs, research and development costs and grants for improvement of the Group's research facilities in relation to certain research and development projects.

## 6. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	77,688	102,954
Cost of services provided	2,967	3,399
Depreciation of property, plant and equipment	16,494	14,652
Depreciation of right-of-use assets	10,076	11,131
Amortisation of other intangible assets	1,738	2,467
Research and development costs*	8,965	11,926
Lease payments not included in the measurement of lease liabilities:		
Land and buildings	2,151	2,931
Auditors' remuneration	1,098	1,195
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	38,981	46,437
Pension scheme contributions	4,253	4,771
Share option expenses (note 22(a))	39	174
Equity-settled share award expenses (note 22(b))	15	91
	43,288	51,473
Foreign exchange difference, net**	867	1,580
Fair value loss/(gain) on biological assets, net	14,066	(4,438)
Loss on disposal of property, plant and equipment	—	9
(Reversal of impairment)/impairment loss on trade and bill receivables, net	(2,060)	3,221
Impairment loss on property, plant and equipment	—	183
Write-down of inventories to net realisable value***	230	2,945

\* HK\$902,000 (six months ended 30 June 2021: HK\$809,000) disclosed in the item of "Depreciation" and HK\$3,556,000 (six months ended 30 June 2021: HK\$4,606,000) disclosed in the item of "Employee benefit expenses" were also included in "Research and development costs" for the six months ended 30 June 2022.

\*\* The foreign exchange difference 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. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	684	1,289
Interest on bank loans and other borrowing and overdrafts	13,310	12,203
	<b>13,994</b>	13,492

## 8. INCOME TAX

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 2021: 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 (2021: 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. profits tax has been provided at the federal rate of 21.0% and the state rate of 8.8% as well as Japan profits tax has been provided at the rate of 34.1% on the estimated assessable profits arising in the respective jurisdictions during the six months ended 30 June 2022.

The statutory tax rate of the Group in respect of its operation in Mainland China is 25.0% (six months ended 30 June 2021: 25.0%). 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 15.0% (six months ended 30 June 2021: 15.0%). 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 2022 and 2021 and the preferential income tax rate was 0.0%.

## 8. INCOME TAX (CONTINUED)

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Current	5,329	5,021
Deferred	(125)	391
Total tax charge for the period	5,204	5,412

## 9. DIVIDENDS

No interim dividend was proposed for the six months ended 30 June 2022 and 2021.

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

### (a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2022 excluding ordinary shares purchased by the Group and held for Award Scheme (note 22(b)).

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
(Loss)/profit attributable to the owners of the parent (HK\$'000)	(39,903)	11,974
Number of issued shares on 1 January	394,892,942	394,892,942
Exercise of share options	166,464	—
Adjustment for vested shares under share award scheme	(950,438)	(1,368,708)
Weighted average number of ordinary shares in issue during the period	394,108,968	393,524,234
Basic (loss)/earnings per share (expressed in HK cents per share)	(10.12)	3.04

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

### (b) Diluted

Diluted (loss)/earnings per share is calculated by dividing the (loss)/profit 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 Scheme.

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
(Loss)/profit attributable to the owners of the parent (HK\$'000)	<b>(39,903)</b>	11,974
Weighted average number of ordinary shares in issue during the period	<b>394,108,968</b>	393,524,234
Adjustment for Award Shares	—	852,717
Weighted average number of ordinary shares for diluted earnings per share calculation	<b>394,108,968</b>	394,376,951
Diluted (loss)/earnings per share (expressed in HK cents per share)	<b>(10.12)</b>	3.04

The Group had no potentially dilutive ordinary shares in issue for share options and share award scheme during the six months ended 30 June 2022 as they had an anti-dilutive effect on the basic loss per share amounts presented (six months ended 30 June 2021: no potentially dilutive ordinary shares in issue for share options as its exercise price is higher than market price).

## 11. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group purchased property, plant and equipment with an aggregate cost of HK\$22,746,000 (six months ended 30 June 2021: HK\$24,597,000).

During the Reporting Period, no property, plant and equipment (six months ended 30 June 2021: with an aggregate carrying amount of HK\$18,000) was disposed of by the Group and no impairment losses (six months ended 30 June 2021: HK\$183,000) was recognised on plant and equipment.

## 12. GOODWILL

	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Audited)
At 1 January	20,993	88,339
Impairment recognises during the period/year	—	(67,346)
At 30 June/31 December	20,993	20,993

### Impairment testing of goodwill

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

- 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 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Chinese herbal products CGU	13,705	13,705
SODX CGU	7,288	7,288
	20,993	20,993

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 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.

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Life insurance policies, at fair value	18,762	18,562

The Group financial assets at fair value through profit or loss represented the three life insurance policies (31 December 2021: three) to insure an executive director. Under the policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for the policy and may surrender the insurance policies any time by making a written request and receive cash based on the surrender value of the policies at the date of withdrawal, which is calculated by the insurer. In the opinion of the directors, the surrender value of the policies provided by the insurance company is the best approximation of its fair value, which is categorised within Level 3 of the fair value hierarchy. The life insurance policies were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

As at 30 June 2022 and 31 December 2021, the Group's life insurance policies were pledged as security for bank facilities granted to the Group. Further details are contained in note 20 to the financial statements.

In the opinion of the directors, the Group's life insurance policies would not be surrendered within the next 12 months and were therefore classified as non-current assets.

## 14. INVENTORIES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Raw materials	86,897	76,465
Work in progress	37,033	39,179
Finished goods	72,257	61,510
	196,187	177,154
Less: provision	(8,424)	(11,115)
	187,763	166,039



## 15. BIOLOGICAL ASSETS

	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Audited)
As at 1 January	64,807	105,110
Addition during the period/year	4,463	30,797
Fair value loss on biological assets, net	(14,066)	(47,459)
Harvest during the period/year	(10,804)	(25,842)
Exchange realignment	(2,428)	2,201
As at 30 June/31 December	41,972	64,807
Portion classified as non-current portion	(19,205)	(31,048)
Current portion	22,767	33,759

The biological assets of the Group are raw Chinese herbs. The Group harvested raw Chinese herbs with a fair value less estimated cost to sell of HK\$10,804,000 (31 December 2021: HK\$25,842,000) during the Reporting Period.

The fair value of the biological assets is estimated using the discounted cash flows of the underlying biological assets. The periodic cash flow is estimated as gross income less production expenses including but not limited to rental expenses, labour costs, utilities and other operating and management expenses (the "Periodic Cash Flow") and discounted at a market-derived discount rate in order to establish the present value of the income stream associated with the biological assets.

## 15. BIOLOGICAL ASSETS (CONTINUED)

Significant assumptions made and key inputs in determining the fair values of the biological assets based on discounted cash flow projections are as follows:

- (i) the raw Chinese herbs will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;
- (ii) the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as life of raw Chinese herbs;
- (iii) estimated yields of raw Chinese herbs are estimated based on the amount planted, health condition, expected death rate, and production conversion rate (from the number of plants to Chinese herbs in kg) if necessary;
- (iv) the expected prices and price growth rate of raw Chinese herbs are estimated based on the historical average district prices; and
- (v) a market-derived discount rate of 15% is applied to the projection of the Periodic Cash Flow.

A significant increase or decrease in the expected prices and price growth rate and the estimated yields would result in a significant increase or decrease in the fair value of the biological assets. A significant increase or decrease in the discount rate in isolation would result in a significant decrease or increase in the fair value of the biological assets. Generally, a change in the assumption made for the estimated price of raw Chinese herbs is accompanied by a directionally similar change in the price growth rate per annum and the discount rate and an opposite change in the estimated production volume.

## 16. TRADE AND BILLS RECEIVABLES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade receivables	210,755	269,569
Bills receivables	1,717	35,689
	<b>212,472</b>	305,258
Less: impairment of trade and bills receivables	<b>(40,079)</b>	(43,852)
	<b>172,393</b>	261,406

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.

## 16. TRADE AND BILLS RECEIVABLES (CONTINUED)

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 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Within 1 month	55,268	93,694
1 to 3 months	9,508	54,780
3 to 6 months	40,387	63,800
6 months to 1 year	54,357	39,417
over 1 year	12,873	9,715
	<b>172,393</b>	<b>261,406</b>

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Prepayments	41,230	28,838
Right of return assets	1,526	2,411
Deposit and other receivables	35,782	36,888
	<b>78,538</b>	<b>68,137</b>
Less: impairment allowance	(241)	(503)
	<b>78,297</b>	<b>67,634</b>
Portion classified as non-current	(7,320)	(5,283)
	<b>70,977</b>	<b>62,351</b>

## 18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Cash and bank balances	39,520	59,671
Time deposits	17,028	25,383
	<b>56,548</b>	85,054
Less: Pledged time deposits for bank loans and bills payables	<b>(17,028)</b>	(25,383)
Cash and cash equivalents	<b>39,520</b>	59,671
Cash and cash equivalents are dominated in:		
Renminbi ("RMB")	16,301	31,390
HK\$	14,532	16,259
US dollar ("US\$")	2,110	3,278
Japanese Yen ("JPY")	6,254	8,603
Canadian dollar ("CAD")	190	141
Singapore dollar ("SGD")	91	—
Euro ("EUR")	37	—
Australian dollar ("AUD")	5	—
Cash and cash equivalents	<b>39,520</b>	59,671

## 19. 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 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Within 1 month	61,333	49,163
1 to 2 months	9,047	14,364
2 to 3 months	14,590	11,139
Over 3 months	65,679	66,013
	<b>150,649</b>	140,679

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

## 20. INTEREST-BEARING BANK AND OTHER BORROWINGS

		30 June 2022 (Unaudited)	
	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>			
Bank overdraft — secured	4.25–5.25	on demand	9,128
Bank loans — secured	1.95–7.00	on demand	107,564
Bank loans and other borrowings — secured	0.85–8.00	2022–2023	123,538
Bank loans — unsecured	3.80–4.66	2022–2023	27,071
Bank loans — unsecured	4.50	on demand	53,255
Other borrowings — unsecured	8.50–11.08	2023	10,273
			<b>330,829</b>
<b>Non-current</b>			
Bank loans and other borrowings — secured	0.85–5.73	2023–2030	58,660
Other borrowings — unsecured	10.00	2023	23,428
			<b>82,088</b>
Total			<b>412,917</b>
		31 December 2021 (Audited)	
	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>			
Bank overdraft — secured	4.25–5.25	On demand	2,163
Bank loans — secured	2.25–7.00	On demand	102,844
Bank loans and other borrowings — secured	0.85–8.00	2022	200,596
Bank loans — unsecured	4.50	On demand	56,445
Bank loans — unsecured	4.35–5.66	2022	34,619
Other borrowings — unsecured	11.08	2022	11,004
			<b>407,671</b>
<b>Non-current</b>			
Bank loans and other borrowings — secured	0.85–5.73	2023–2030	66,595
Other borrowings — unsecured	10.00–11.08	2023	25,402
			<b>91,997</b>
Total			<b>499,668</b>

## 20. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Analysed into:		
Bank loans and other borrowings payable:		
Within one year or on demand	330,829	407,671
In the second year	32,246	34,923
In the third to fifth years, inclusive	27,032	28,563
Beyond five years	22,810	28,511
	412,917	499,668

Interest-bearing bank and other borrowings are denominated in:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
HK\$	134,512	122,327
RMB	275,610	373,805
JPY	2,795	3,536
	412,917	499,668

Note:

- (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 in the loan at any time ("repayment on demand clause") shall be classified in total by the borrower as current in the consolidated statement of financial position. Interest-bearing bank loans of the Group in the amount of HK\$100,245,000 (31 December 2021: HK\$177,901,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$43,291,000 (31 December 2021: HK\$50,537,000) 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.

## 20. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Note: (Continued)

- (b) As at 30 June 2022, the Group was not in compliance with certain loan covenants as stipulated in the agreements of the bank loans amounting to approximately HK\$133,935,000 (31 December 2021: HK\$124,068,000). Bank loans amounting to HK\$77,767,000 (31 December 2021: HK\$53,527,000), out of the HK\$133,935,000, are repayable on demand and have already been accounted for as current liabilities; and the remaining balance of HK\$56,168,000 (31 December 2021: HK\$70,541,000) which are repayable beyond 12 months, have already been accounted for as current liabilities. Waivers for the breach of these covenants of the loans amounting to HK\$64,233,000 have been obtained subsequent to the financial statements date.
- (c) As at 30 June 2022, the Group's bank facilities including overdraft were amounting to HK\$569,182,000 (31 December 2021: HK\$567,400,000) of which HK\$417,349,000 (31 December 2021: HK\$499,668,000) had been utilised.
- (d) The following assets were pledged as securities for interest-bearing bank and other borrowings:

	Carrying value	
	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Property, plant and equipment	177,235	158,870
Right-of-use assets	34,965	37,826
Financial assets at fair value through profit or loss	18,762	18,562
Inventories	—	42,858
Trade and bills receivables	16,962	54,775
Pledged bank deposits	17,028	25,383
Investment Property	6,275	6,560
	<b>271,227</b>	<b>344,834</b>



## 21. SHARE CAPITAL

	30 June 2022 HK\$'000	31 December 2021 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: 395,897,275 (31 December 2021: 394,892,941) ordinary shares of US\$0.1 (HK\$0.775) each	<b>306,820</b>	306,042

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

	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2021	394,892,941	306,042	220,658	526,700
Vesting of Share Award Scheme (note 22(b))	—	—	531	531
At 31 December 2021 and 1 January 2022	394,892,941	306,042	221,189	527,231
Share options exercised (note 22(a))	1,004,334	778	315	1,093
Vesting of Share Award Scheme (note 22(b))	—	—	67	67
At 30 June 2022	395,897,275	306,820	221,571	528,391

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

### (a) Share option scheme

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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 of directors (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. The exercise price and the number of shares were adjusted upon completion of the rights issue on 2 March 2020.

## 22. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME (CONTINUED)

### (a) Share option scheme (Continued)

On 24 July 2020, the Board 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. Among the options resolved to grant, 4 employees did not accept the grant and out of the 16,124,000 options, 800,000 options were not granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

The following share options were outstanding under the Option Scheme:

As at 30 June 2022

	Weighted average exercise price HK\$' (Unaudited)	Number of options '000 (Unaudited)
At 1 January 2022	1.24	21,213
Exercised during the period	0.8	(1,004)
Forfeited during the period	0.8	(3,880)
At 30 June 2022	1.38	16,329

## 22. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME (CONTINUED)

### (a) Share option scheme (Continued)

The exercise prices and exercise periods of the share options outstanding are as follows:

Number of options	Exercise price	Vesting date	Exercise period
3,011,859	HK\$2.3*	10 May 2020	From vesting date to 9 May 2029
3,011,859	HK\$2.3*	10 May 2021	From vesting date to 9 May 2029
132,853	HK\$2.3*	10 May 2022	From vesting date to 9 May 2029
132,853	HK\$2.3*	10 May 2023	From vesting date to 9 May 2029
4,417,667	HK\$0.8	23 July 2021	From vesting date to 23 July 2030
5,422,000	HK\$0.8	23 July 2022	From vesting date to 23 July 2030
200,000	HK\$0.8	23 July 2023	From vesting date to 23 July 2030
<u>16,329,091</u>			

As at 30 June 2021

	Weighted average exercise price HK\$' (Unaudited)	Number of options '000 (Unaudited)
At 1 January 2021	1.25	21,797
Adjustment during the period	2.30	(7)
Forfeited during the period	0.80	(200)
At 30 June 2021	<u>1.25</u>	<u>21,590</u>

## 22. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME (CONTINUED)

### (a) Share option scheme (Continued)

The exercise prices and exercise periods of the share options outstanding are as follows:

Number of options	Exercise price	Vesting date	Exercise period
3,056,144	HK\$2.3*	10 May 2020	From vesting date to 9 May 2029
3,056,144	HK\$2.3*	10 May 2021	From vesting date to 9 May 2029
177,137	HK\$2.3*	10 May 2022	From vesting date to 9 May 2029
177,137	HK\$2.3*	10 May 2023	From vesting date to 9 May 2029
7,622,000	HK\$0.8	23 July 2021	From vesting date to 23 July 2030
7,102,000	HK\$0.8	23 July 2022	From vesting date to 23 July 2030
400,000	HK\$0.8	23 July 2023	From vesting date to 23 July 2030
<u>21,590,562</u>			

\* The number of option and exercise price was adjusted upon the completion of Right issue.

Details of the share option expenses of the Group during the six months ended 30 June 2022 and 2021 is listed as below:

	Six months ended 30 June 2022 HK\$'000 (Unaudited)	Six months ended 30 June 2021 HK\$'000 (Unaudited)
Share option expenses recognised during the period	606	2,386
Forfeited during the period	(479)	(31)
Net share option expenses recognised during the period	<u>127</u>	<u>2,355</u>
Less: Included in directors' remuneration	(88)	(2,181)
Employee benefit expenses	<u>39</u>	<u>174</u>

The fair value of the share options granted during 2020 and 2019 was HK\$4,453,000 and HK\$7,893,000 respectively, of which the Group recognised a share option expense of HK\$127,000 in aggregate during the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$2,355,000).

## 22. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME (CONTINUED)

### (a) Share option scheme (Continued)

At the end of the Reporting Period, the Company had 16,329,000 share options outstanding under the Scheme, which represented approximately 4.1% 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 16,329,000 additional ordinary shares of the Company and additional equity amount of HK\$22,493,000 (before issue expenses).

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

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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.

#### Shareholdings of Share Award Scheme Trust

As at 30 June 2022, the Share Award Scheme Trust holds 844,335 (31 December 2021: 959,335) shares of the Company. During the six months ended 30 June 2022, no share (six months ended 30 June 2021: Nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 115,000 shares were vested (six months ended 30 June 2021: 956,665).

## 22. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME (CONTINUED)

### (b) Shares held for the share award scheme (Continued)

#### Granted Award shares

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.

On 25 August 2020, the board of the directors of the Company resolved to grant share awards in respect of a total of 1,000,000 shares to Mr. SK Cheong. This director was re-designated as a non-executive director in June 2021 and retired in March 2022. All of the awarded shares were vested or forfeited at the end of the reporting period.

Summary of particulars of the Award Shares is as follows:

Date of Grant	Number of outstanding Awarded Shares as at the Date of Grant	Fair value HK\$'000	Vesting Date	Number of Awarded Shares				
				Vested during the at prior periods	Forfeited during the prior periods	Vested during the current period	Forfeited during the current period	Outstanding as at 30 June 2022
16 June 2017	615,000	2,295	16 June 2018	(525,000)	(90,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2019	(290,000)	(120,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2020	(290,000)	(120,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2021	(290,000)	(120,000)	—	—	—
16 June 2017	205,000	765	16 June 2022	—	(60,000)	(115,000)	(30,000)	—
25 August 2020	333,333	234	1 January 2021	(333,333)	—	—	—	—
25 August 2020	83,333	58	1 February 2021	(83,333)	—	—	—	—
25 August 2020	83,333	58	1 March 2021	(83,333)	—	—	—	—
25 August 2020	83,333	58	1 April 2021	(83,333)	—	—	—	—
25 August 2020	83,333	58	1 May 2021	(83,333)	—	—	—	—
25 August 2020	83,333	58	1 June 2021	—	(83,333)	—	—	—
25 August 2020	83,333	58	1 July 2021	—	(83,333)	—	—	—
25 August 2020	83,333	58	1 August 2021	—	(83,333)	—	—	—
25 August 2020	83,336	60	1 September 2021	—	(83,336)	—	—	—
	3,050,000	8,347		(2,061,665)	(843,335)	(115,000)	(30,000)	—

## 22. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME (CONTINUED)

### (b) Shares held for the share award scheme (Continued)

Granted Award shares (Continued)

Details of the equity-settled share award expenses of the Group during the six months ended 30 June 2022 and 2021 is listed as below:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gross amount of recognition share award expenses	49	387
Forfeited during the period	(10)	(218)
Net share award expenses recognised during the period	39	169
Less: Included in directors' remuneration	(24)	(78)
Employee benefit expenses	15	91

## 23. RESERVES

### Surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the company now comprising the Group which is registered in the PRC shall appropriate a certain percentage of its net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. When the balance of this reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages. After making the appropriation to the statutory surplus reserve, the company may also appropriate its profit for the year to the discretionary surplus reserve upon approval by the board of directors or the shareholders in general meeting.

### Capital reserve

Capital reserve represented additional contributions made by the shareholders of the Company's subsidiaries and, in the case of an acquisition of additional non-controlling interest of a subsidiary, the difference between the cost of acquisition and the non-controlling interest acquired.

### Merger reserve

The merger reserve represented the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired and the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation undergone by the Group.



## 24. COMMITMENTS

The Group had the following capital commitments at the end of each of the Reporting Period:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Contracted, but not provided for:		
Buildings	11,754	28,542
Plant and machinery	7,990	1,369
	19,744	29,911

## 25. 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
Ms. Man Yee Wai, Viola	Director of the Company
Mr. Hisayoshi Norimoto	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
HerbMiners Informatics Ltd ("HerbMiners")	Company controlled by Mr. Abraham Chan
Petzup Laboratories Limited ("Petzup")	Company controlled by Gold Sparkle Ltd. and Gold Sparkle Ltd. is controlled by Mr. Abraham Chan
Purapharm Corporation Limited	Company controlled by Joint Partners Investments Limited and Joint Partners Investments Limited is controlled by Mr. Abraham Chan & Ms. Man Yee Wai, Viola

\* Mr. Eddie Chan resigned on 28 May 2021.

## 25. RELATED PARTY TRANSACTIONS (CONTINUED)

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

		Six months ended 30 June	
		2022	2021
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Shareholder fund		1,014	—
Professional service fees	(i)	—	365
		<b>1,014</b>	<b>365</b>

Note:

- (i) 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 2022		31 December 2021	
	Maximum amount outstanding	Maximum amount outstanding	Maximum amount outstanding	Maximum amount outstanding
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
<b>Amount due from related parties</b>				
PetzUp	114	114	—	—
Purapharm Corporation Limited	113	113	—	—
HerbMiners	—	—	—	5,900
Mr. Hisayoshi Norimoto	23	23	—	—
Mr. Abraham Chan	1,014	1,014	—	—
	<b>1,264</b>	<b>1,264</b>	<b>—</b>	<b>5,900</b>

## 25. RELATED PARTY TRANSACTIONS (CONTINUED)

### (d) Compensation of key management personnel of the Group: \_\_\_\_\_

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	3,229	5,603
Pension scheme contributions	18	33
Share option expense (note 22(a))	88	2,181
Equity-settled share award expense (note 22(b))	24	78
	<b>3,359</b>	<b>7,895</b>

## 26. 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, amount due from related parties 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, amount due to related parties, financial liabilities included in other payables and accruals and interest-bearing bank and other borrowings.

Management has assessed that:

- 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
- 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.

## 27. APPROVAL OF FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by board of directors on 27 August 2022.



**PuraPharm**

Chinese Medicine Modernized

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