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**PuraPharm**

**PURAPHARM CORPORATION LIMITED**

**培力農本方有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1498)**

**ANNOUNCEMENT OF FINAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

	<b>FINANCIAL HIGHLIGHTS</b>					
	<b>Year ended 31 December</b>					
	<b>2022</b>	<b>% of</b>	<b>2021</b>	<b>% of</b>	<b>Change</b>	
	<b>HK\$'000</b>	<b>total</b>	<b>HK\$'000</b>	<b>total</b>	<b>HK\$'000</b>	<b>%</b>
Revenue						
— China concentrated Chinese medicine granule	<b>117,751</b>	<b>26.3%</b>	352,996	53.5%	(235,245)	-66.6%
— Hong Kong concentrated Chinese medicine granule	<b>192,094</b>	<b>42.9%</b>	162,740	24.7%	29,354	18.0%
— Chinese healthcare products	<b>78,858</b>	<b>17.6%</b>	78,098	11.8%	760	1.0%
— Nong's® (農本方) Chinese medicine clinics	<b>46,112</b>	<b>10.3%</b>	50,027	7.6%	(3,915)	-7.8%
— Plantation	<b>13,254</b>	<b>2.9%</b>	15,731	2.4%	(2,477)	-15.7%
	<b><u>448,069</u></b>	<b><u>100.0%</u></b>	<b><u>659,592</u></b>	<b><u>100.0%</u></b>	<b><u>(211,523)</u></b>	<b><u>-32.1%</u></b>
Gross profit	<b>262,704</b>		423,353		(160,649)	-37.9%
Net loss for the year	<b>(120,214)</b>		(121,877)			

The board (the “**Board**”) of directors (the “**Directors**”) of PuraPharm Corporation Limited (the “**Company**”) is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022 (the “**Reporting Period**”) with the comparative audited figures as at 31 December 2021 as follows.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	4	448,069	659,592
Cost of sales		<u>(185,365)</u>	<u>(236,239)</u>
Gross profit		262,704	423,353
Other income and gains	4	15,990	12,502
Selling and distribution expenses		(157,383)	(220,006)
Administrative expenses		(157,915)	(168,451)
Impairment loss on property, plant and equipment		(3,022)	—
Impairment loss on goodwill		—	(67,346)
Impairment loss on financial assets, net		(11,906)	(17,278)
Other expenses		(43,467)	(52,939)
Finance costs		<u>(24,183)</u>	<u>(27,027)</u>
LOSS BEFORE TAX	5	(119,182)	(117,192)
Income tax expense	6	<u>(1,032)</u>	<u>(4,685)</u>
LOSS FOR THE YEAR		<u><u>(120,214)</u></u>	<u><u>(121,877)</u></u>
Attributable to:			
Owners of the parent		<u><u>(120,214)</u></u>	<u><u>(121,877)</u></u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted			
— For loss for the year (expressed in HK cents per share)		<u><u>(30.47)</u></u>	<u><u>(30.95)</u></u>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(120,214)</u>	<u>(121,877)</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(24,126)</u>	<u>8,273</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(24,126)</u>	<u>8,273</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	<u>(144,340)</u>	<u>(113,604)</u>
Attributable to:		
Owners of the parent	<u>(144,340)</u>	<u>(113,604)</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>319,763</b>	344,114
Investment properties		<b>4,434</b>	6,560
Right-of-use assets		<b>111,314</b>	116,901
Goodwill		<b>20,993</b>	20,993
Other intangible assets		<b>37,640</b>	41,062
Financial assets at fair value through profit or loss		<b>19,940</b>	18,562
Biological assets		<b>—</b>	31,048
Prepayments for non-current assets		<b>5,370</b>	5,283
Deferred tax assets		<b>11,047</b>	10,483
		<hr/>	<hr/>
Total non-current assets		<b>530,501</b>	595,006
<b>CURRENT ASSETS</b>			
Inventories		<b>172,380</b>	166,039
Biological assets		<b>18,432</b>	33,759
Trade and bills receivables	9	<b>131,866</b>	261,406
Prepayments, other receivables and other assets		<b>49,889</b>	62,351
Tax recoverable		<b>6,415</b>	2,248
Restricted cash and pledged deposit		<b>31,183</b>	25,383
Cash and cash equivalents		<b>75,831</b>	59,671
		<hr/>	<hr/>
Total current assets		<b>485,996</b>	610,857
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	<b>137,911</b>	140,679
Other payables and accruals		<b>97,164</b>	97,811
Interest-bearing bank and other borrowings	11	<b>410,140</b>	407,671
Lease liabilities		<b>18,505</b>	13,239
Tax payable		<b>1,439</b>	3,578
Government grants		<b>247</b>	2,336
		<hr/>	<hr/>
Total current liabilities		<b>665,406</b>	665,314
<b>NET CURRENT LIABILITIES</b>		<b>(179,410)</b>	(54,457)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>351,091</b>	540,549
		<hr/> <hr/>	<hr/> <hr/>

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Other payables and accruals		<b>14,248</b>	24,157
Interest-bearing bank and other borrowings	<i>11</i>	<b>48,680</b>	91,997
Lease liabilities		<b>25,832</b>	19,052
Government grants		<b>1,025</b>	1,174
Deferred tax liabilities		<b>3,017</b>	2,611
		<hr/>	<hr/>
Total non-current liabilities		<b>92,802</b>	138,991
		<hr/>	<hr/>
Net assets		<b>258,289</b>	401,558
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	<i>12</i>	<b>306,820</b>	306,042
Shares held for share award scheme		<b>(2,859)</b>	(3,221)
Reserves		<b>(45,672)</b>	98,737
		<hr/>	<hr/>
Total equity		<b>258,289</b>	401,558
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		<b>(119,182)</b>	(117,192)
Adjustments for:			
Finance costs		<b>24,183</b>	27,027
Bank interest income	4	<b>(475)</b>	(360)
Foreign exchange difference, net	5	<b>84</b>	(711)
Loss on disposal of property, plant and equipment	5	—	6
Equity-settled share award and share option expenses		<b>268</b>	3,504
Covid-19-related rent concessions from lessors		—	(106)
Depreciation of property, plant and equipment	5	<b>23,840</b>	22,660
Depreciation of right-of-use assets	5	<b>19,690</b>	22,278
Amortisation of intangible assets	5	<b>5,131</b>	5,201
Fair value loss on investment properties	5	<b>1,619</b>	1,197
Fair value gain on financial assets at fair value through profit or loss	5	<b>(174)</b>	(304)
Fair value loss on biological assets	5	<b>36,656</b>	47,459
Gain on disposal of right-of-use assets	5	<b>(41)</b>	(190)
Write-down of inventories to net realisable value	5	<b>4,833</b>	8,115
Impairment loss on goodwill	5	—	67,346
Impairment loss on property, plant and equipment	5	<b>3,022</b>	—
Impairment loss on trade and bills receivables	5	<b>10,545</b>	17,033
Impairment loss on prepayments, other receivables and other assets	5	<b>1,361</b>	245
		<b>11,360</b>	103,208

<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <b>HK\$'000</b>
(Increase)/decrease in inventories	<b>(8,711)</b>	35,475
Increase in biological assets	<b>(8,517)</b>	(30,797)
Decrease/(increase) in trade and bills receivables	<b>105,452</b>	(51,190)
(Increase)/decrease in prepayments, deposits and other receivables	<b>(3,367)</b>	7,258
Increase/(decrease) in trade and bills payables	<b>9,607</b>	(22,563)
Decrease in government grants	<b>(2,045)</b>	(3,222)
Decrease in other payables and accruals	<b>(7,079)</b>	(42,302)
Decrease in tax recoverable	<b>(4,168)</b>	—
Decrease in amount due to related parties	<b>—</b>	(5,900)
	<hr/>	<hr/>
Cash generated from/(used in) operations	<b>92,532</b>	(10,033)
Interest received	<b>475</b>	360
Hong Kong profits tax paid	<b>(3,702)</b>	(2,831)
Overseas profits tax paid	<b>(742)</b>	(442)
PRC profit taxes paid	<b>(58)</b>	(1,574)
	<hr/>	<hr/>
Net cash flows from/(used in) operating activities	<b>88,505</b>	(14,520)
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of financial assets at fair value through profit or loss	<b>(1,204)</b>	—
Purchases of property, plant and equipment	<b>(20,828)</b>	(3,093)
Acquisition of right-of-use assets	<b>(841)</b>	—
Proceeds from disposal of property, plant and equipment	<b>96</b>	2,891
Proceeds from disposal of intangible assets	<b>1</b>	—
Additions to intangible assets	<b>(1,889)</b>	(3,466)
(Increase)/decrease in restricted cash and pledged deposits, net	<b>(5,800)</b>	9,673
Prepayment for acquisition of a joint venture	<b>(780)</b>	—
	<hr/>	<hr/>
Net cash flows (used in)/from investing activities	<b>(31,245)</b>	6,005
	<hr/>	<hr/>

<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <i>HK\$'000</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares upon exercise of share options	<b>803</b>	—
Increase in director's loan	<b>4,610</b>	—
New bank loans and other borrowings	<b>337,499</b>	374,882
Repayment of bank loans and other borrowings	<b>(340,830)</b>	(330,211)
Increase in overdrafts	<b>5,547</b>	2,163
Principal portion of lease payments	<b>(19,040)</b>	(33,679)
Interest paid for lease liabilities	<b>(1,526)</b>	(2,220)
Interest paid for bank and other borrowings	<b>(22,657)</b>	(24,807)
Net cash flows used in financing activities	<b>(35,594)</b>	(13,872)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of year	<b>59,671</b>	75,810
Effect of foreign exchange rate changes, net	<b>(5,506)</b>	6,248
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>75,831</u></b>	<b><u>59,671</u></b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b><u>75,831</u></b>	<b><u>59,671</u></b>
Cash and cash equivalents as stated in the statement of cash flows	<b><u>75,831</u></b>	<b><u>59,671</u></b>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE AND GROUP INFORMATION

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 year, the Company and its subsidiaries (the “**Group**”) have been principally engaged in the research and development, production and sale of concentrated Chinese medicine granule (“**CCMG**”) products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and manufacture and sale of Traditional Chinese Medicine (“**TCM**”) decoction pieces (“**中藥飲片**”), as well as rendering of Chinese medical diagnostic services.

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

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, investment properties, and biological assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2022, the Group had net current liabilities of HK\$179.4 million (31 December 2021: HK\$54.5 million), and significant drop in the sales of concentrated Chinese medicine granules (“**CCMG**”) products in Mainland China which was affected by the transition to the new national standards. Although the Group had successfully registered majority of its CCMG products under the new national standards on or before 31 December 2022, the operating cash flow from sales of the Group’s CCMG products had been significantly impacted which resulted in net current liability position as at 31 December 2022. 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 as set out below in assessing whether the Group will have sufficient financial resources to continue as a going concern:

- (a) The Group had gradually resumed to its normal operation after the year end date and the sales of CCMG products have been gradually increased subsequently;
- (b) The Group’s sales continue to grow in Hong Kong region;

- (c) The Group continues to diversify its product mix with the aim to maximize its gross margin;
- (d) 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;
- (e) During the year and subsequent to the year end date, the Group had successfully renewed its short term bank loans with the banks; and
- (f) As at 31 December 2022, the Group had unutilised bank facilities amounting to HK\$84.8 million (note 11), which could be utilised to repay the total principal and interest due upon the respective repayment dates.

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 consolidated financial statements of the Group for the year ended 31 December 2022 on a going concern basis.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over

the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The application of these revised HKFRSs 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 the consolidated financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> <sup>2</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>1</sup>
Amendments to HKFRS 17	<i>Insurance Contracts</i> <sup>1, 5</sup>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information</i> <sup>6</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> <sup>2, 4</sup>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> <sup>1</sup>
Amendments to HKAS 8	<i>Definition of Accounting Estimate</i> <sup>1</sup>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024

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

<sup>4</sup> As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

<sup>5</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

<sup>6</sup> An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group’s financial statements.

### 3. 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 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 the 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 award and share option expenses, non-lease-related finance costs, corporate and other unallocated expenses and income tax expense.

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

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2022 and 2021.

### 31 December 2022

	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 (note 4):</b>							
Sales to external customers	117,751	192,094	78,858	46,112	13,254	—	448,069
Intersegment sales	124,501	7,311	417	—	76,276	(208,505)	—
	<u>242,252</u>	<u>199,405</u>	<u>79,275</u>	<u>46,112</u>	<u>89,530</u>	<u>(208,505)</u>	<u>448,069</u>
<b>Segment results</b>	(23,246)	54,018	(2,032)	(5,735)	(54,109)	—	(31,104)
<i>Reconciliations:</i>							
Interest income							475
Foreign exchange difference, net							(84)
Equity-settled share award and share option expenses							(268)
Finance costs (other than interest on lease liabilities)							(22,657)
Corporate and other unallocated expenses							(65,544)
Loss before tax							(119,182)
Income tax expense							(1,032)
<b>Net Loss</b>							<u>(120,214)</u>
<b>Other segment information:</b>							
Depreciation and amortisation of property, plant and equipment and other intangible asset	16,415	2,519	3,728	913	5,396	—	28,971
Depreciation of right-of-use asset	3,269	350	6,642	7,509	1,920	—	19,690
Write-down of inventories to net realisable value	1,298	266	434	—	2,835	—	4,833
Impairment loss on trade and bills receivables, net	3,343	452	374	224	6,152	—	10,545
Impairment loss on prepayments, other receivables and other assets	580	—	—	—	781	—	1,361
Impairment loss on property, plant and equipment	—	—	—	—	3,022	—	3,022
Government grants	5,006	856	443	934	1,079	—	8,318
Capital expenditure*	<u>43,451</u>	<u>2,647</u>	<u>11,774</u>	<u>8,450</u>	<u>708</u>	<u>—</u>	<u>67,030</u>

### 31 December 2021

	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 (note 4):</b>							
Sales to external customers	352,996	162,740	78,098	50,027	15,731	—	659,592
Intersegment sales	98,052	7,900	996	—	29,097	(136,045)	—
	<u>451,048</u>	<u>170,640</u>	<u>79,094</u>	<u>50,027</u>	<u>44,828</u>	<u>(136,045)</u>	<u>659,592</u>
<b>Segment results</b>	61,931	41,083	9,288	(8,044)	(141,870)	—	(37,612)
<i>Reconciliations:</i>							
Interest income							360
Foreign exchange difference, net							711
Equity-settled share award and share option expenses							(3,504)
Finance costs (other than interest on lease liabilities)							(24,807)
Corporate and other unallocated expenses							(52,340)
Loss before tax							(117,192)
Income tax expense							(4,685)
<b>Net Loss</b>							<u>(121,877)</u>
<b>Other segment information:</b>							
Depreciation and amortisation of property, plant and equipment and other intangible asset	14,010	2,791	4,393	861	5,806	—	27,861
Depreciation of right-of-use asset	7,290	1,155	5,626	6,269	1,938	—	22,278
Loss on disposal of items of property, plant and equipment	—	—	6	—	—	—	6
Write-down of inventories to net realisable value	2,259	570	606	—	4,680	—	8,115
Impairment loss on trade and bills receivables, net	12,345	(282)	88	—	4,882	—	17,033
Impairment loss on prepayments, other receivables and other assets	245	—	—	—	—	—	245
Government grants	5,992	—	133	77	1,913	—	8,115
Capital expenditure*	<u>40,898</u>	<u>1,306</u>	<u>1,824</u>	<u>8,480</u>	<u>2,006</u>	<u>—</u>	<u>54,514</u>

\* Capital expenditure consists of additions of right-of-use assets amounted to HK\$33,028,000 (2021: HK\$8,363,000).

#### 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 HK\$'000	2021 HK\$'000
Revenue from contracts with customers		
Sale of CCMG products	343,715	552,512
Sale of Chinese healthcare products	78,858	78,098
Sale of raw Chinese herbs	13,254	15,731
Rendering of diagnostic services	12,242	13,251
	<u>448,069</u>	<u>659,592</u>

#### Revenue from contracts with customers

##### *Disaggregated revenue information*

*For the year ended 31 December 2022*

Segments	Sale of goods HK\$'000	Diagnostic services HK\$'000	Total HK\$'000
<b>Types of goods or services</b>			
Sale of goods	435,827	—	435,827
Rendering of services	—	12,242	12,242
Total revenue from contracts with customers	<u>435,827</u>	<u>12,242</u>	<u>448,069</u>
<b>Geographical markets</b>			
Hong Kong	269,289	12,242	281,531
Mainland China	132,301	—	132,301
Other countries/regions	34,237	—	34,237
Total revenue from contracts with customers	<u>435,827</u>	<u>12,242</u>	<u>448,069</u>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	435,827	—	435,827
Services transferred over time	—	12,242	12,242
Total revenue from contracts with customers	<u>435,827</u>	<u>12,242</u>	<u>448,069</u>



For the year ended 31 December 2021

Segments	Sale of goods HK\$'000	Diagnostic services HK\$'000	Total HK\$'000
<b>Types of goods or services</b>			
Sale of goods	646,341	—	646,341
Rendering of services	—	13,251	13,251
Total revenue from contracts with customers	<u>646,341</u>	<u>13,251</u>	<u>659,592</u>
<b>Geographical markets</b>			
Hong Kong	229,681	12,796	242,477
Mainland China	373,634	455	374,089
Other countries/regions	43,026	—	43,026
Total revenue from contracts with customers	<u>646,341</u>	<u>13,251</u>	<u>659,592</u>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	646,341	—	646,341
Services transferred over time	—	13,251	13,251
Total revenue from contracts with customers	<u>646,341</u>	<u>13,251</u>	<u>659,592</u>
<b>Other income and gains</b>			
		<b>2022</b>	2021
		<b>HK\$'000</b>	HK\$'000
Foreign exchange gain, net		—	711
Government grants*		<b>8,318</b>	8,115
Gain from the sale of equipment and accessories		<b>1,687</b>	1,552
Bank interest income		<b>475</b>	360
Gross rental income from investment property operating leases:			
Variable lease payments that do not depend on an index or a rate		<b>405</b>	510
Others		<b>5,105</b>	1,254
		<u><b>15,990</b></u>	<u>12,502</u>

\* 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 and the subsidies from Hong Kong Government to support enterprise against the negative impact brought by the COVID-19 pandemic.

## 5. LOSS BEFORE TAX

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of inventories sold	181,518	229,844
Cost of services provided	3,847	6,395
Depreciation of property, plant and equipment	23,840	22,660
Depreciation of right-of-use assets	19,690	22,278
Amortisation of intangible assets	5,131	5,201
Fair value loss on investment properties*	1,619	1,197
Fair value gain on financial assets at fair value through profit or loss*	(174)	(304)
Fair value loss on biological assets, net*	36,656	47,459
Gain on disposal of right-of-use assets	(41)	(190)
Impairment loss on goodwill	—	67,346
Write-down of inventories to net realisable value**	4,833	8,115
Impairment loss on trade and bills receivables	10,545	17,033
Impairment loss on other receivables	1,361	245
Impairment loss on property, plant and equipment	3,022	—
Lease payments not included in the measurement of lease liabilities	4,298	6,039
Auditors' remuneration	2,600	2,758
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	81,618	80,628
Pension scheme contributions (defined contribution scheme)****	9,653	8,964
Equity-settled share award and share option expenses	80	562
	<u>91,351</u>	<u>90,154</u>
Research and development costs***	22,323	25,452
Loss on disposal of property, plant and equipment*	—	6
Foreign exchange difference, net*	<u>84</u>	<u>(711)</u>

- \* Fair value gain on financial assets at fair value through profit or loss was included in “Other income and gain” in the consolidated statement of profit or loss for the year ended 31 December 2022 and 2021. The fair value loss on investment properties, financial asset at fair value through profit or loss, and biological asset, loss on disposal of property plant and equipment were included in “Other expenses” in the consolidated statement of profit or loss for the years ended 31 December 2022 and 2021.

- \*\* The write-down of inventories to net realisable value was included in the “Cost of sales” in the consolidated statement of profit or loss for the years ended 31 December 2022 and 2021.
- \*\*\* HK\$2,118,000 (2021: HK\$1,502,000) disclosed in the item of “Depreciation” and HK\$7,694,000 (2021: HK\$6,457,000) disclosed in the item of “Employee benefit expense” were also included in “Research and development costs”.
- \*\*\*\* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

## 6. INCOME TAX

The Group is subject to income tax on an entity basis on profit 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% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, 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 taxes have 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 23.2% on the estimated assessable profits arising in the respective jurisdictions, during the years ended 31 December 2022 and 2021.

The statutory tax rate of the Group in respect of its operation in Mainland China is 25% (2021: 25%). The Group’s PRC subsidiary, Purapharm (Nanning) Pharmaceuticals Co., Limited (“**PuraPharm Nanning**”), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15% (2021: 15%). According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. have obtained the documentation acknowledged by the tax authority in charge for the Company income tax exemption for years ended 31 December 2022 and 2021 and the preferential income tax rate was 0%.

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Current	1,956	4,263
Deferred	(924)	422
	<u>1,032</u>	<u>4,685</u>

## 7. DIVIDENDS

No dividend was proposed for the years ended 31 December 2022 and 2021.

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

	2022	2021
Loss per share attributable to ordinary equity holders of the parent		
— Basic and diluted ( <i>HK cents</i> )	<u><u>(30.47)</u></u>	<u><u>(30.95)</u></u>

### (a) Basic

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the years ended 31 December 2022 and 2021 excluding ordinary shares purchased by the Group and held for the award scheme.

	2022	2021
Loss attributable to ordinary equity holders of the parent ( <i>HK\$'000</i> )	<u><u>(120,214)</u></u>	<u><u>(121,877)</u></u>
Weighted average number of ordinary shares in issue	<u><u>394,584,833</u></u>	<u><u>393,732,673</u></u>
Basic loss per share ( <i>expressed in HK cents per share</i> )	<u><u>(30.47)</u></u>	<u><u>(30.95)</u></u>

The calculation of the weighted average number of ordinary shares amounting to 394,584,833 (31 December 2021: 393,732,673) in issue for the year ended 31 December 2022 is as follows:

	2022	2021
Number of issued shares on 1 January	394,892,941	263,261,961
Adjustment for shares held for share award scheme	(896,950)	(1,160,268)
Exercise of share options	588,842	—
Effect of right issue on 2 March 2020	—	131,630,980
Weighted average number of ordinary shares	<u><u>394,584,833</u></u>	<u><u>393,732,673</u></u>

### (b) Diluted

The Group had no potentially dilutive ordinary shares in issue for share options and share award scheme during the year ended 31 December 2022 and 2021 as they had an anti-dilutive effect on the basic loss per share amounts presented.

## 9. TRADE AND BILLS RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	163,811	269,569
Bills receivable ( <i>Note</i> )	<u>18,346</u>	<u>35,689</u>
	182,157	305,258
Less: Impairment of trade and bills receivables	<u>(50,291)</u>	<u>(43,852)</u>
	<u><u>131,866</u></u>	<u><u>261,406</u></u>

*Note:* During the year ended 31 December 2022, the Group entered into a serious of bills discounted arrangements (the “**Arrangements**”) to transfer bills receivable (the “**Discounted Bills**”) to PRC banks or third-party company with a carrying amount in aggregate of HK\$17,451,000 (2021: Nil). Under the Arrangements, the Group may be required to reimburse the PRC banks or third-party company for loss of principal and interest if any trade debtors have default payment. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills and other borrowings as disclosed in Note 11. Due to the cash flow of bills receivable are not solely payments of principal and interest, the total amount of bills receivables are accounted as financial assets at fair value through other comprehensive income as at 31 December 2022 and in the opinion of the Directors, the carrying amounts of the Discounted Bills are approximate their fair values.

The Group’s trading terms with its customers are mainly on credit, except for new customers, where payments 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. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at 31 December 2022 and 2021, based on the invoice date and net of loss allowance, is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	83,781	93,694
1 to 3 months	6,720	54,780
3 to 6 months	4,863	63,800
6 months to 1 year	28,794	39,417
Over 1 year	<u>7,708</u>	<u>9,715</u>
	<u><u>131,866</u></u>	<u><u>261,406</u></u>

## 10. TRADE AND BILLS PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	103,151	116,189
Bills payables	<u>34,760</u>	<u>24,490</u>
	<u><b>137,911</b></u>	<u><b>140,679</b></u>

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	56,005	49,163
1 to 2 months	23,618	14,364
2 to 3 months	37,493	11,139
Over 3 months	<u>20,795</u>	<u>66,013</u>
	<u><b>137,911</b></u>	<u><b>140,679</b></u>

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

## 11. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2022			2021		
	Effective interest rate%	Maturity	HK\$'000	Effective interest rate%	Maturity	HK\$'000
<b>Current</b>						
Bank overdraft — secured (a)	4.25–5.25	On demand	7,710	4.25–5.25	On demand	2,163
Bank loans — secured	2.25–7.00	On demand	153,009	2.25–7.00	On demand	102,844
Bank loans and other borrowings-secured (a)	2.31–8.00	2023	174,018	0.85–8.00	2022	200,596
Bank loans — unsecured (a)	4.50	On demand	18,965	4.50	On demand	56,445
Bank loans — unsecured	3.65–5.66	2023	23,117	4.35–5.66	2022	34,619
Other borrowings — secured	8.21	2023	8,208	—	—	—
Other borrowings — unsecured	8.50–10.00	2023	25,113	11.08	2022	11,004
			<u>410,140</u>			<u>407,671</u>
<b>Non-current</b>						
Bank loans and other borrowings — secured	0.85–5.88	2024–2030	41,879	0.85–5.73	2023–2030	66,595
Other borrowings — secured	6.25	2024–2025	6,801	—	—	—
Other borrowings — unsecured	—	—	—	10.00–11.08	2023	25,402
			<u>48,680</u>			<u>91,997</u>
			<u>458,820</u>			<u>499,668</u>
				<b>2022</b>	<b>2021</b>	
				<b>HK\$'000</b>	<b>HK\$'000</b>	
Analysed into:						
Bank loans and other borrowings repayable:						
Within one year or on demand			410,140			407,671
In the second year			9,814			34,923
In the third to fifth years, inclusive			21,747			28,563
Beyond five years			17,119			28,511
			<u>458,820</u>			<u>499,668</u>

Interest-bearing bank and other borrowings are denominated in:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
HK\$	127,444	122,327
RMB	328,749	373,805
JPY	2,627	3,536
	<u>458,820</u>	<u>499,668</u>

- (a) HK Interpretation 5 “Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause” requires that a loan which includes a clause that gives the lender the unconditional right to call 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\$112,944,000 (2021: HK\$177,901,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$36,308,000 (2021: HK\$50,537,000) that is repayable after one year from the end of 2022 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. The aforesaid amount did not include the default loans without on demand clause.
- (b) As at 31 December 2022, the Group was not in compliance with certain loan covenants as stipulated in the agreements of the bank loans amounting to approximately HK\$128,804,000 (31 December 2021: HK\$124,068,000). Bank loans amounting to HK\$89,117,000 (31 December 2021: HK\$53,527,000), out of the HK\$128,804,000, are repayable on demand or within 12 months and have already been accounted for as current liabilities as mentioned in note 11(a); and the remaining balance of HK\$39,687,000 (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\$62,065,000 have been obtained subsequent to the financial statements date.
- (c) As at 31 December 2022, the Group’s bank facilities including overdraft were amounting to HK\$543,657,000 (2021: HK\$567,400,000), of which HK\$458,820,000 (2021: HK\$499,668,000) had been utilised.



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

	Carrying value	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Property, plant and equipment	177,759	158,870
Investment Property	—	6,560
Right-of-use assets	37,669	37,826
Financial assets at fair value through profit or loss	18,736	18,562
Inventories	46,425	42,858
Trade and bills receivables	58,255	54,775
Pledged deposits	—	25,383
	<u>338,844</u>	<u>344,834</u>

(e) As at 31 December 2022, the Group's bank loans of HK\$56,203,000 (31 December 2021: HK\$53,833,000) were under the SME Financing Guarantee Scheme (the "Scheme"), and the relevant balances were guaranteed by the Government of Hong Kong Special Administrative Region and a personal guarantee by Mr. Abraham Chan, as required under the Scheme.

## 12. SHARE CAPITAL

### Shares

	2022 <i>HK\$'000</i>
Authorised:	
50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	<u>38,750,000</u>
Issued and fully paid:	
395,897,275 ordinary shares of US\$0.1 (HK\$0.775) each	<u>306,820</u>
	2021 <i>HK\$'000</i>
Authorised:	
50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	<u>38,750,000</u>
Issued and fully paid:	
394,892,941 ordinary shares of US\$0.1 (HK\$0.775) each	<u>306,042</u>

A summary of movements in the Company's share capital and share premium account are as follows:

	<b>Number of shares in issue</b>	<b>Share capital <i>HK\$'000</i></b>	<b>Share premium account <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
At 1 January 2021	394,892,941	306,042	220,658	526,700
Transfer of vested shares under Share Award Scheme	<u>—</u>	<u>—</u>	<u>531</u>	<u>531</u>
At 31 December 2021 and 1 January 2022	394,892,941	306,042	221,189	527,231
Share option exercised	1,004,334	778	315	1,093
Transfer of vested shares under Share Award Scheme	<u>—</u>	<u>—</u>	<u>67</u>	<u>67</u>
At 31 December 2022	<u><u>395,897,275</u></u>	<u><u>306,820</u></u>	<u><u>221,571</u></u>	<u><u>528,391</u></u>

### 13. CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 31 December 2022 and 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PROSPECTS

During the post-pandemic era, as the impacts of the COVID-19 pandemic gradually waned and prevention and control measures are eased, the global economy is reviving and the production and consumption levels in China are also recovering accordingly.

In recent years, China has placed great importance to the development of the traditional Chinese medicine industry, with support evidenced through the continuous issuance of favorable policies for the industry. The 14th Five-Year Plan for the Development of Traditional Chinese Medicine points out that the service capability of traditional Chinese medicine will exhibit significant growth; the high-quality development policies and systems of traditional Chinese medicine will be perfected; the revitalizing development of traditional Chinese medicine will have a positive outcome; and the unique advantages in the construction of “Healthy China” will be fully promoted by 2025. As a leader in the Chinese medicine granules industry and the Chinese medicine clinics industry, the Group is expected to tap into these opportunities and gain broader prospects, in terms of both volume and value growth, in parallel with the new national standard policies.

Looking ahead, with the complete reopening of the Hong Kong — Mainland border, the rapid recovery of the socio-economic environment as well as the successive recovery of the research and development, production, supply and sales chains are expected to help the Chinese medicine granules industry achieve further rapid growth. Furthermore, China has also introduced a number of policies to encourage and support the innovative development of pharmaceutical enterprises and promote the “Internet+” mode of operation, which will also bring new positive developments to the pharmaceutical industry in the PRC.

With respect to the research, development and production of Chinese medicine, the Group will continue to strengthen our research and development capabilities to promote our high quality CCMG products, actively develop innovative healthcare products featuring natural ingredients, enrich our product portfolio, improve product quality and increase market share. In addition to increases in our innovative research and development, the Group has also invested additional resources into the marketing of Chinese healthcare products in mid-2022, upon which we believe will also benefit the future sales of various products. In the modernization of Chinese medicine, the Group will focus on online marketing and broaden our customer base through the promotion of competitive products in light of the recovering retail market. At the same time, the Group has allocated budget to continuously optimize the cloud-based consultation and management system launched by our Nong’s Chinese medicine clinics. By leveraging our medical consultation analytics platform by conducting evidence-based medical research and big data analytics of Chinese medicine consultations and prescription cases, we will improve and provide a comprehensive and detailed assistance and analysis to Chinese medicine practitioners and patients to support the Chinese medicine business in all aspects.

With respect to in-store retail business, the Group places great importance to its diversified development. The Group will continue to optimize Nong's Chinese medicine clinics to provide modern Chinese medicine consultation services and enhance the store network by using the store-for-store approach to meet the needs of our customers. The Group will also seize opportunities to strengthen its grasp on the Greater Bay Area market by leveraging the successful experience of existing stores and to open new franchise chain stores and to vigorously explore new opportunities in cross-border e-commerce in the Greater Bay Area. Moreover, the Group intends to draw on its experience and strengths in the Chinese medicine market to expand its portfolio of healthcare products in the Mainland market by leveraging the diversification of its business to help reduce its reliance on one single business. The Group will also pay close attention to and make full use of the market advantages of the Greater Bay Area and further boost the sales of Chinese medicine granules and healthcare products by deploying an alliance network of small and medium-sized clinics. Concurrently, the Group's newest flagship store in Central, Hong Kong "Nong's Special TCM Clinic and Acupuncture Centre (農本方特約中醫診所及針灸中心)" will help further develop its physical retail business. Through a wide spectrum of treatment services, complemented by high-end branding and quality customer services, the Group is committed to providing customers with the most professional, safe and effective range of Chinese medical treatment services. The Group has always been committed to advancement and innovation, and strives to continuously launch high quality products to cater for the younger generations, promote revenue growth and create long-term stable returns to our shareholders.

## **FINANCIAL REVIEW**

### **China CCMG**

For the year ended 31 December 2022, the China CCMG market was significantly affected by the implementation of the new national standards in November 2021. The sales of CCMG in China was HK\$117.8 million, representing a decrease of HK\$235.2 million or 66.6% compared to HK\$353.0 million in last year. The decrease in revenue from China CCMG business 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 throughout the year; (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 being higher than before, the market is still undergoing adjustment to adopt to the new higher pricing. As a result, the China CCMG sales business decreased.

### **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. For the year of 2022, the direct sales of CCMG products in Hong Kong was HK\$192.1 million, representing an increase of HK\$29.4 million or 18.0% compared to HK\$162.7 million in last year. For the year of 2022, 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 for the year of 2022, which caused temporary logistic hiccups to the Group.

For the year of 2022, the Group 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

A new flagship clinic located in the central business district of Hong Kong was opened in June 2022, which targets customers with higher spending power. For the year of 2022, 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. With the number of clinics in operation in Hong Kong decreased from 25 clinics as at 31 December 2021 to 22 clinics as at 31 December 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\$46.1 million by HK\$3.9 million or 7.8% compared to HK\$50.0 million 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 decreased for the year of 2022 due to the increased depreciation of right-of-use assets.

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

## Chinese Healthcare Products

### *Sales by regions*

	Year ended 31 December				Change	
	2022		2021		HK\$'000	%
Revenue	Revenue	Revenue	Revenue			
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	%
United States of America (the "U.S.A.")	26,841	34.0%	31,537	40.4%	(4,696)	-14.9%
Japan	7,499	9.5%	9,428	12.1%	(1,929)	-20.5%
Hong Kong	44,518	56.5%	37,133	47.5%	7,385	19.9%
	<u>78,858</u>	<u>100.0%</u>	<u>78,098</u>	<u>100.0%</u>	<u>760</u>	<u>1.0%</u>

For the year ended 31 December 2022, revenue from sales of Chinese healthcare products in the U.S., Japan and Hong Kong markets was HK\$78.9 million in aggregate, representing an increase of HK\$0.8 million or 1.0% as compared to HK\$78.1 million 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 HK\$4.7 million, which is offset by the increase in sales in Hong Kong market, especially in the 4th quarter with a surge in demand of the Group's health product.

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 year of 2022 in 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 world economy and consumer confidence are recovering after 3 years of COVID-19 pandemic, 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 year ended 31 December 2022, the upstream plantation segment contributed HK\$13.3 million to the Group's overall revenue, representing a decrease of HK\$2.5 million or 15.7% from HK\$15.7 million recorded in last year. 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 the Group being one of the leading 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.

## Gross Profit

	Year ended 31 December		Change %
	2022 HK\$'000	2021 HK\$'000	
Revenue	448,069	659,592	-32.1%
Cost of sales	185,365	236,239	-21.5%
Gross Profit	<u>262,704</u>	<u>423,353</u>	<u>-37.9%</u>
Gross profit margin	<u>58.6%</u>	<u>64.2%</u>	

The Group's gross profit margin for the year ended 31 December 2022 was 58.6%, representing a decrease of 5.6%, compared to 64.2% in last year. This is the result of the combined effect of the increase in the average production cost of CCMG in the PRC market under new national standards, together with the effort and additional cost incurred to overcome the supply chain issue in the U.S.A. operation, which increased its production cost of healthcare products, while other business segments remained stable during the year ended 31 December 2022.

## Other income and gains

The Group's other income and gains mainly comprised of net foreign exchange gain, gain from sale of equipment and accessories, financial assets at fair value through profit or loss and interest income. For the year ended 31 December 2022, the Group's other income and gain was HK\$16.0 million, representing an increase of HK\$3.5 million compared to HK\$12.5 million in last year.

The increase was mainly attributable to the miscellaneous income for fertilizer sales and government subsidies under the plantation segment of the Group in Guizhou Province for the year of 2022.

## 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 year ended 31 December 2022, the Group's selling and distribution expenses was HK\$157.4 million, representing a decrease of HK\$62.6 million or 28.5% compared to HK\$220.0 million in last year. The decrease was mainly attributable to (i) decrease in the PRC marketing expenses as the China CCMG market was undergoing 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 year of 2022, selling and distribution expenses as a percentage to revenue increased from 33.4% in the year of 2021 to 35.1%. With the significant sales drop for the full year of 2022, 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 for the China CCMG market.

## Administrative expenses

	Year ended 31 December			
	2022	2021	Change	
	HK\$'000	HK\$'000	HK\$'000	%
Clinics operating expenses	25,849	36,217	(10,368)	-28.6%
Research and development costs	22,323	25,452	(3,129)	-12.3%
General administrative expenses	109,743	106,782	2,961	2.8%
Total administrative expenses	<u>157,915</u>	<u>168,451</u>	<u>(10,536)</u>	<u>-6.3%</u>

For the year ended 31 December 2022, the Group's administrative expenses was HK\$157.9 million, representing a decrease of HK\$10.5 million or 6.3% compared to HK\$168.5 million in last year. The administrative 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 year ended 31 December 2022, the Group's operating expenses for clinics segment was HK\$25.8 million, representing a decrease of HK\$10.4 million or 28.6% compared to HK\$36.2 million in last year. The decrease was mainly attributable to the modification and downsizing of clinic network 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 31 December 2022.

The research and development costs for the year ended 31 December 2022 decreased by HK\$3.1 million or 12.3%, mainly due to the decrease in service fee paid to external research partners as development progress of certain projects was slowed down during the year of 2022. The Group's general administrative expenses for the full year of 2022 increased by HK\$3.0 million or 2.8%, which was mainly attribute to the increase in number of staff in the Group's corporate marketing and product development functions.

## **Other expenses**

For the year ended 31 December 2022, the Group's other expenses was HK\$43.5 million, representing a decrease of HK\$9.4 million or 17.8% compared to HK\$52.9 million for the financial year ended 31 December 2021. Such other expenses mainly comprised of fair value loss on biological assets, loss on disposal of property, plant and equipment, net foreign exchange loss, voluntary charity donation and fair value loss on investment properties. Such decrease was mainly attribute to the impairment loss on biological assets of HK\$36.7 million recorded for the year ended 31 December 2022, representing a decrease of HK\$10.8 million or 22.7% compared to HK\$47.5 million in last year.

## **Finance costs**

For the year ended 31 December 2022, the Group's finance costs amounted to HK\$24.2 million, which decreased by HK\$2.8 million or 10.4%, as compared to HK\$27.0 million in last year. The decrease in interest cost was in line with the decrease in average utilisation of bank and other borrowings.

## **Income tax expense**

The Group's income tax expenses decreased from HK\$4.7 million in last year to HK\$1.0 million for the year ended 31 December 2022. Such decrease was mainly attribute to the Group's operations in China and U.S.A. were less profitable, thus decreased the income tax expense for the year ended 31 December 2022.

## **Loss for the year**

The Group recorded a net loss of HK\$120.2 million for the year ended 31 December 2022, as compared with the net loss of HK\$121.9 million recorded in last year. Such net loss is mainly attributable to the following factors:

- (i) the implementation of the new policy of national standards for CCMG, which has led to a slowdown in the CCMG business in China; and
- (ii) the impairment loss on biological assets related to the Group's plantation segment recognised for the year ended 31 December 2022 in the amount of HK\$36.7 million, as compared with the fair value loss on biological assets of HK\$47.5 million in last year.

If excluded such non-recurring revaluation on investment properties, biological assets, financial asset, goodwill, trade receivables, and inventories, the Group recorded an adjusted operating loss of HK\$63.7 million for the year ended 31 December 2022, representing a decrease of HK\$82.6 million from the operating profit adjusted under the same manner of last year of HK\$18.9 million.

## LIQUIDITY AND FINANCIAL RESOURCES

### Cash position and interest-bearing bank and other borrowings

	Year ended 31 December		Change	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	<i>HK\$'000</i>	%
Net current liabilities	<b>(179,410)</b>	(54,457)	(124,953)	229.5%
Cash and cash equivalent	<b>75,831</b>	59,671	16,160	27.1%
Interest-bearing bank and other borrowings	<b>(458,820)</b>	(499,668)	40,848	-8.2%
Current portion	<b>(410,140)</b>	(407,671)	(2,469)	0.6%
Non-current portion	<b>(48,680)</b>	(91,997)	43,317	-47.1%
Unused bank facilities	<b>84,837</b>	67,732	17,105	25.3%

The Group generally finances its operation with operating cash flows and bank and other borrowing facilities. The Group actively manages the cash and borrowings of the Group to ensure an appropriate level of liquidity and sufficient funds are available to meet the Group's business need.

### Cash flow and liquidity ratio analysis

	Year ended 31 December		Change <i>HK\$'000</i>
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	
Net cash generated from/(used in) operating activities	<b>88,505</b>	(14,520)	103,025
Net cash (used in)/generated from investing activities	<b>(31,245)</b>	6,005	(37,250)
Net cash used in financing activities	<b>(35,594)</b>	(13,872)	(21,722)
Current ratio	<b>0.7</b>	0.9	
Gearing ratio	<b>1.8</b>	1.2	

For the year ended 31 December 2022, the Group's net cash generated from operating activities was HK\$88.5 million, which was higher than last year by HK\$103.0 million. The increase in operating cash inflow was mainly due to (i) the decrease in trade and bills receivables of China CCMG sales as a result of the collection of trade and bills receivables, which was higher than the sales in the second half of 2022, and (ii) decrease in cash outflow for settlement of trade and bills payables for the raw material purchase for production.

For the year ended 31 December 2022, the Group's net cash used in investing activities was HK\$31.2 million, which was mainly the combined effect of the increase in pledged time deposit and the purchase of property, plant and equipment mainly for upgrading of the production line in Nanning to meet the requirements of the new national standards. The Group's net cash generated from investing activities was HK\$6.0 million last year due to a decrease in pledged time deposit.

For the year ended 31 December 2022, the Group's net cash used in financing activities was HK\$35.6 million, representing a decrease by HK\$21.7 million as compared to last year due to the combined effect of the net decrease in bank loans and other borrowings during 2022, which is partly offset by an increase in directors' loan.

The Group's current ratio decreased from 0.9 as at 31 December 2021 to 0.7 as at 31 December 2022, such decrease was mainly attributable to the significant decrease in trade and bills receivables partly offset by the mild decrease in the current bank and other borrowings.

The Group's gearing ratio (calculated by dividing total interest-bearing bank and other borrowings by total equity) increased from 1.2 as at 31 December 2021 to 1.8 as at 31 December 2022. Such increase was mainly attributable to the decrease in the Group's equity as a result of the net loss for the year ended 31 December 2022.

In order to improve the current ratio and gearing ratio, the Group will consider to leverage on the equity financing. The Group will also strengthen the working capital management by closely monitoring the collection of trade and bills receivables and inventory level to increase the operating cash flow and lower the bank and other borrowings level.

## 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 any hedging transactions or instruments to hedge against the fluctuations in exchange rate between Renminbi and Hong Kong dollar. However, the Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

## HUMAN RESOURCES

As at 31 December 2022, the Group had a total of 663 employees (31 December 2021: 675 employees). During the year ended 31 December 2022, total staff costs excluding Directors' remuneration was HK\$91.4 million (31 December 2021: HK\$90.2 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 performance of the Group and individuals. The Group also allocated resources for continuing education and would arrange regular trainings to staff members and management personnel to improve their skills and knowledge.

## PLEDGE OF ASSETS

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

	Year ended 31 December	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Property, plant and equipment	177,759	158,870
Right-of-use assets	37,669	37,826
Financial assets at fair value through profit or loss	18,736	18,562
Inventories	46,425	42,858
Trade and bills receivables	58,255	54,775
Pledged bank deposits	—	25,383
Investment Property	—	6,560
	<u>338,844</u>	<u>344,834</u>

## CAPITAL COMMITMENT

The Group had the following capital commitment:

	Year ended 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and Buildings	24,245	28,542
Plant and machinery	196	1,369
	<u>24,441</u>	<u>29,911</u>

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the business plan disclosed in this announcement, the Group did not have any future plans for material investments or capital assets as at 31 December 2022.

## CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 31 December 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 31 December 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 of proceed	Total approximate amount of Net Proceeds (in HK\$ million)	Approximate percentage of Net Proceeds	Approximate amount utilised as at 31 December 2022 (in HK\$ million)	Approximate amount utilised during the year ended 31 December 2022 (in HK\$ million)	Approximate amount unutilised as at 31 December 2022 (in HK\$ million)	Expected timeline for the use of unutilised net proceeds
To expand manufacturing facilities and enhance existing production lines	86.5	30%	86.5	—	—	—
To establish new Nong's <sup>®</sup> 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 2023
Additional working capital of the Group	28.8	10%	28.8	—	—	—
	<u>288.4</u>	<u>100%</u>	<u>282.0</u>	<u>—</u>	<u>6.4</u>	

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 could not be fully fulfilled, the parties to the Asset Sale Agreement agreed that the Asset Sale Agreement should lapse 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 Asset Sale Agreement and the transaction contemplated thereunder, please refer to the announcements of the Company dated 8 October 2020, 25 March 2021 and 5 October 2021.

## **SHARE OPTION SCHEME**

On 12 June 2015, the share option scheme (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 day immediately preceding the tenth anniversary period. 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 may be made or loans for such purposes must be repaid for the amount payable on acceptance of the option under the rules of the Share Option Scheme is 30 days after the relevant date of grant of the options.



As at 31 December 2021, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 39,489,294. The refreshment of the scheme mandate limit under the Share Option Scheme (the “**Scheme Mandate Limit**”) was approved by the shareholders of the Company at the annual general meeting held on 28 May 2021, after which the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 39,489,294, representing 10% of the number of issued shares of the Company as at the date of the annual general meeting on 28 May 2021.

On 9 May 2019, 6,376,000 options were granted to four Directors and certain employees of the Company, entitling them to subscribe for a total of 6,376,000 shares at the exercise price of HK\$2.4 per share. The 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 grantee 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, 4 employees did not accept the grant and out of the 16,124,000 options, resulting 800,000 option not being granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

During the year 2022, one director and three employees have left employment and a total of 3,880,000 options were cancelled. For the year ended 31 December 2022, there were 15,996,238 options outstanding.

On 29 December 2022, a total of 7,700,000 options were granted to two Directors, entitling them to subscribe for 7,700,000 ordinary shares at the exercise price of HK\$1.292 per share. The closing price of the share immediately before the date of grant is HK\$1.28. During the year ended 31 December 2022, a total of 7,700,000 options were granted by the Board. As at 31 December 2022, the total number of share available for issue under the Share Option Scheme is 31,789,294 shares.

Details of the options granted under the Share Option Scheme is as follows:

Grantees	Name of Director	Grant date	Exercise price	Vesting date	As at 1 January 2022	Number of options granted during the Reporting Period	Exercised during the Reporting Period	Adjustment/ canceled/ lapsed during the Reporting Period	As at 31 December 2022
Directors	Mr. Chan Yu Ling, Abraham	9 May 2019	HK\$2.3 (Note)	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
				29 Dec 2022	—	1,925,000	—	—	1,925,000
	29 Dec 2022	HK\$1,292	29 Dec 2023	—	1,925,000	—	—	1,925,000	
			29 Dec 2024	—	1,925,000	—	—	1,925,000	
	Ms. Man Yee Wai, Viola	9 May 2019	HK\$2.3 (Note)	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
				29 Dec 2022	—	1,925,000	—	—	1,925,000
	29 Dec 2022	HK\$1,292	29 Dec 2023	—	1,925,000	—	—	1,925,000	
			29 Dec 2024	—	1,925,000	—	—	1,925,000	
	Mr. Norimoto Hisayoshi	9 May 2019	HK\$2.3 (Note)	10 May 2020	44,285	—	—	—	44,285
				10 May 2021	44,285	—	—	—	44,285
				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 (Note)	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 (Note)	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)	—	—	
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	7,700,000	(871,000)	(3,480,000)	23,408,150
Employees	9 May 2019	HK\$2.3 (Note)	10 May 2020	88,570	—	—	—	88,570	
			10 May 2021	88,568	—	—	—	88,568	
			10 May 2022	88,568	—	—	—	88,568	
			10 May 2023	88,568	—	—	—	88,568	
						354,274	—	—	354,274
	24 July 2020	HK\$0.8	23 July 2021	266,668	—	(133,333)	(133,335)	—	
			23 July 2022	266,666	—	—	(133,333)	133,333	
			23 July 2023	266,666	—	—	(133,332)	133,334	
					800,000	—	(133,333)	(400,000)	266,667
Sub-total for Employees					1,154,274	—	(133,333)	(400,000)	620,941
Total					21,213,424	7,700,000	(1,004,333)	(3,880,000)	24,029,091

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

## **CORPORATE GOVERNANCE**

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the “**Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). During the year ended 31 December 2022 (the “**Review Period**”), 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. Chan Yu Ling, Abraham’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. Chan Yu Ling, Abraham’s 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 provision C.2.1 of the Code. Further, the Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team.

The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company’s current structure and to make changes at an appropriate time in the future if necessary.

## **AUDIT COMMITTEE**

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the Code. The Audit Committee comprises three independent non-executive Directors as follows:

Mr. Ho Kwok Wah, George (*Chairman*)

Dr. Leung Lim Kin, Simon

Prof. Tsui Lap Chee

The chairman of the Audit Committee, Mr. Ho Kwok Wah, George, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary roles and functions of the Audit Committee include, but not limited to: (i) reviewing and monitoring the relationship of the external auditor and the Group, particularly the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard; (ii) reviewing the Company's financial information; (iii) reviewing the financial controls, internal control and risk management systems of the Group; and (iv) reviewing financial and accounting policies and practices of the Group.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management. The Audit Committee has reviewed the annual financial results for the year ended 31 December 2022 and considers that the annual results are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

## **REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS**

The figures in respect of the Group's results for the year ended 31 December 2022 as set out in this preliminary announcement of results have been agreed by the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

## **MODEL CODE FOR SECURITIES**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the required standards of dealing as set out in the Model Code during the year ended 31 December 2022 and the Board was of the view that the model code has been fully complied with during the year ended 31 December 2022.

## **PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY**

The Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities throughout the year ended 31 December 2022.

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

The Board is not aware any significant event affecting the Company or any of its subsidiaries after 31 December 2022 and up to the date of this announcement.

## **DIVIDEND**

The Board resolved not to recommend the payment of final dividend for the year ended 31 December 2022 to the shareholders of the Company (2021: nil).

## **ANNUAL GENERAL MEETING**

The annual general meeting (“**AGM**”) will be held on Tuesday, 30 May 2023 and the notice of AGM will be published and despatched in the manner as required by the Listing Rules and articles of association of the Company in due course.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 24 May 2023 to Tuesday, 30 May 2023, both dates inclusive, during which no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on 30 May 2023 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 pm on Tuesday, 23 May 2023.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.purapharm.com](http://www.purapharm.com). The annual report of the Company for the year ended 31 December 2022 will also be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.purapharm.com](http://www.purapharm.com) and will be dispatched to the shareholders of the Company according to the Listing Rules in April 2023.

## **FORWARD LOOKING STATEMENTS**

This announcement contains certain forward looking statements with respect to the financial condition, result of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

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

Hong Kong, 21 March 2023

*As at the date of this announcement, the executive Directors of the Company are Mr. Chan Yu Ling, Abraham, Ms. Man Yee Wai, Viola and Dr. Norimoto Hisayoshi; and the independent non-executive Directors of the Company are Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee.*