2019 INTERIM REPORT
中期報告

PuraPharm

PuraPharm Corporation Limited
培力控股有限公司

Stock code 股 票 代 號：1498

Contents

PuraPharm Corporation Limited 2019 Interim Report

Corporate Information

Executive Directors
Mr. Chan Yu Ling, Abraham *(Chairman)*
Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)*
Mr. Chan Kin Man, Eddie
Ms. Man Yee Wai, Viola

Non-Executive Director
Mr. Chow, Stanley

Independent Non-Executive Directors
Dr. Chan Kin Keung, Eugene
Mr. Ho Kwok Wah, George
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee

Audit Committee
Mr. Ho Kwok Wah, George *(Chairman)*
Dr. Chan Kin Keung, Eugene
Dr. Leung Lim Kin, Simon

Nomination Committee
Mr. Chan Yu Ling, Abraham *(Chairman)*
Dr. Chan Kin Keung, Eugene
(resigned on 27 March 2019)
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee (appointed on 27 March 2019)

Remuneration Committee
Dr. Chan Kin Keung, Eugene *(Chairman)*
Dr. Tsoi Kam Biu, Alvin
Prof. Tsui Lap Chee

Scientific Advisory Committee
Prof. Paul Vanhoutte *(Chairman)*
Prof. Rudolf Bauer
Prof. Piu Chan
Prof. Liang Song Ming
Mr. Lin Jinn Sin
Prof. Bruce Robinson

Company Secretary
Mr. Lau Ka Kuen

Authorized Representatives
Mr. Chan Yu Ling, Abraham
Mr. Lau Ka Kuen

Investor Relations
Mr. Lau Ka Kuen

Auditor
Ernst & Young
Certified Public Accountants

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

Registered Office
Offshore Incorporations (Cayman) Limited
P.O. Box 31119, Grand Pavilion
Hibiscus Way, 802 West Bay Road
Grand Cayman KY1-1205 Cayman Islands

Corporate Information

Headquarter and Principal Place of Business in Hong Kong

Suite 4002, Jardine House
1 Connaught Place, Central
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

Estera Trust (Cayman) Limited
Clifton House, 75 Fort Street
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

Chairman's Statement

Dear Shareholders,

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

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

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

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

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

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

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

Prospects

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

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

Chairman's Statement

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

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

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

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

Appreciation

Last but not least, I wish to express my sincere appreciation to the 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 2019

Management Discussion and Analysis

Financial Highlight

	Six months ended 30 June					
	2019		2018		Change	
	HK$'000	**% of total**	HK$'000	% of total	HK$'000	%
China CCMG	**133,982**	**40.2%**	166,107	43.0%	(32,125)	(19.3)
Hong Kong CCMG	**83,851**	**25.1%**	83,793	21.7%	58	0.1
Chinese Healthcare products	**48,508**	**14.5%**	48,555	12.6%	(47)	(0.1)
Nong's® (農本方)® Chinese medicine clinics	**51,664**	**15.5%**	44,980	11.6%	6,684	14.9
Plantation	**15,553**	**4.7%**	43,169	11.1%	(27,616)	(64.0)
Total	**333,558**	**100.0%**	386,604	100.0%	(53,046)	(13.7)
(Loss)/Profit for the period	**(45,180)**		13,348		(58,528)	(438.5)

The Group's revenue for the six months ended 30 June 2019 was HK$333.6 million, representing a decrease of HK$53.0 million or 13.7%, compared to HK$386.6 million for the corresponding period in last year. The revenue drop was mainly attributable to the decrease in the sales of the Group's China CCMG segment and Plantation segment, attributable to the following factors:

(i) The sales drop of the Group's China CCMG segment was attributable to the decrease in sales quantity, especially the distributorship sales. The sales of the Group's China CCMG segment through distributorship was relatively high in the last correspondence period, which was benefited from a temporary growth resulting from the revamped sales strategy of the Group in 2017. In addition, during the six months period ended 30 June 2019, the Group has restructured it's sales team in China for CCMG segment, and this lead to a slowdown of the business development during the transitional period; and

(ii) The drop in sales of the Group's Plantation segment was attributable to the different product mix in relation to the types of Chinese herbs products sold by the Group during the six months period ended 30 June 2019 comparing to last correspondence period, which has different market demand.

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

(i) decrease in the sales of the Group's China CCMG segment and Plantation segment mentioned above;

(ii) decrease in Government grant received for the six months ended 30 June 2019 while the Company received approximately HK$6.9 million an one-off Government grant in the last corresponding period; and

(iii) fair value loss on biological assets of HK$0.9 million was recognised for the six months ended 30 June 2019, whereas a gain of HK$3.4 million was recognised for the corresponding period in last year.

Management Discussion and Analysis

Financial Review

Sales performance by segment

China CCMG

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

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

HK CCMG

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

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

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

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

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

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

Chinese healthcare products

Sales by regions

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

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

Plantation

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

Profitability

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

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

Other income and gains

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

Selling and distribution expenses

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

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

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

Administrative expenses

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

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

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

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

Other expenses

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

Finance costs

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

Income tax expense

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

Capital Expenditures

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

Liquidity and Financial Resources

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

Management Discussion and Analysis

Gearing Ratio

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

Exchange Risk

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

Human Resources

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

Pledge of Assets

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

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

Capital Commitment

	30 June 2019 HK$'000	31 December 2018 HK$'000
Contracted, but not provided for:		
Land and buildings	**27,032**	30,119
Plant and machinery	**7,656**	20,478
	34,688	50,597

Material Acquisitions, Disposals and Material Investment

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

Contingent Liabilities

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

Use of Proceeds from the Company's Initial Public Offering

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

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

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

Disclosure of Interests

Directors' and Chief Executives' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2019, the board of directors of the Company ("Directors") and chief executives 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	Capacity/ Nature of Interest	Number of Shares held or interested[1]	Percentage of the Company's issued share capital
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Interest of controlled corporations	126,903,220 (L)[2][3][4]	51.23%
	Beneficial owner	5,170,500 (L)	2.09%
	Interest of spouse	52,396,500 (L)[5]	21.15%
	Beneficiary of a trust	150,000 (L)[9]	0.06%
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Interest of a controlled corporation	51,566,500 (L)[6]	20.82%
	Beneficial owner	755,000 (L)	0.30%
	Interest of spouse	132,223,720 (L)[7]	53.38%
	Beneficiary of a trust	75,000 (L)[9]	0.03%
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Interest of controlled corporations	3,125,000 (L)[8]	1.26%
	Beneficial owner	2,093,000 (L)	0.84%
	Beneficiary of a trust	10,000 (L)[9]	0.004%
Dr. Tsoi Kam Biu, Alvin	Beneficial owner	755,000 (L)	0.30%
	Beneficiary of a trust	75,000 (L)[9]	0.03%
Dr. Chan Kin Keung, Eugene	Beneficial owner	10,000 (L)	0.004%
	Beneficiary of a trust	10,000 (L)[9]	0.004%
Mr. Ho Kwok Wah, George	Beneficial owner	10,000 (L)	0.004%
	Beneficiary of a trust	10,000 (L)[9]	0.004%
Dr. Leung Lim Kin, Simon	Beneficial owner	10,000 (L)	0.004%
	Beneficiary of a trust	10,000 (L)[9]	0.004%
Prof. Tsui Lap Chee	Beneficial owner	10,000 (L)	0.004%
	Beneficiary of a trust	10,000 (L)[9]	0.004%

Disclosure of Interests

Notes:

1. The letter "L" denotes the person's long position in such securities.

2. 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 51,566,500 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by PuraPharm Corp.

3. Mr. Abraham Chan beneficially owns the entire issued share capital of Fullgold Development Limited ("Fullgold Development"), which in turn owns 62,286,000 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Fullgold Development.

4. Mr. Abraham Chan beneficially owns the entire issued share capital of Gold Sparkle Limited ("Gold Sparkle"), which in turn owns 13,050,720 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Gold Sparkle.

5. 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 51,566,500 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. Mr. Eddie Chan wholly owns the entire issued share capital of Best Revenue Investments Limited ("Best Revenue") and K.M. Chan & Co. Limited ("KM Chan") , which in turn owns 1,562,500 Shares and 1,562,500 Shares, respectively. By virtue of the SFO, Mr. Eddie Chan is deemed to be interested in the Shares held by Best Revenue and KM Chan.

9. These shares represent shares granted to such directors pursuant to the Award Scheme, which will be 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.

Save as disclosed above, as at 30 June 2019, none of the Directors, chief executives 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.

Disclosure of Interests

Substantial Shareholders' Interests and/or Short Position in Shares and Underlying Shares of the Company

As at 30 June 2019, so far as was known to the Directors, the following entity (not being 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[1]	Percentage of the Company's issued share capital
PuraPharm Corp	Beneficial owner	51,566,500 (L)	20.82%
Joint Partners	Interest of a controlled corporation	51,566,500 (L)[2]	20.82%
Fullgold Development	Beneficial owner	62,286,000 (L)	25.14%
Gold Sparkle	Beneficial owner	13,050,720 (L)	5.27%
Successful Lotus Limited	Beneficial owner	15,000,000 (L)	6.06%
	Beneficial owner	15,000,000 (S)	6.06%
Mr. Lee Ka Kit	Interest of a controlled corporation	15,000,000 (L)[3]	6.06%
	Interest of a controlled corporation	15,000,000 (S)[3]	6.06%

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. 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.

3. Successful Lotus Limited is wholly-owned by Mr. Lee Ka Kit. Therefore, Mr. Lee Ka Kit is deemed to be interested in the long position and short position of 15,000,000 Shares owned by Successful Lotus Limited.

Save as disclosed above, as at 30 June 2019, 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.

Disclosure of Interests

Share Option Scheme

The Company adopted a share option scheme (the "Option Scheme") to recognise and acknowledge the contributions that the eligible participants had or may have made to the Group. The principal terms of the Option Scheme are summarised in note 23(a) to the interim condensed consolidated financial statements .

The Option Scheme was adopted on 12 June 2015 and unless otherwise cancelled or amended, will remain in force for a period of 10 years to 11 June 2025.

On 9 May 2019, 6,376,000 share options were granted to certain Directors and employees of the Company, entitling them to subscribe for a total of 6,376,000 ordinary shares of the Company under the Option Scheme. Details of the share options granted are set out below:

Grantees	Grant date	Exercise price	Vesting date	As at 1 January 2019	Number of Shares issuable under Options granted	Exercised during the period	Cancelled/ lapsed during the period	As at 30 June 2019
Directors	9 May 2019	HK$2.4	10 May 2020	–	2,763,000	–	–	2,763,000
			10 May 2021	–	2,763,000	–	–	2,763,000
				–	5,526,000	–	–	5,526,000
Employees	9 May 2019	HK$2.4	10 May 2020	–	212,500	–	–	212,500
			10 May 2021	–	212,500	–	–	212,500
			10 May 2022	–	212,500	–	–	212,500
			10 May 2023	–	212,500	–	–	212,500
				–	850,000	–	–	850,000
Total				–	6,376,000	–	–	6,376,000

Disclosure of Interests

Share Award Scheme

The Board of Directors (the "Board") 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 administrating the 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.

As at 30 June 2019, the Share Award Scheme Trust held 2,206,000 shares (the "Award Shares") (31 December 2018: 2,496,000 Award Shares). No Award Share was granted during the six months ended 30 June 2019, and a total of 290,000 Award Shares were vested to the Eligible Participants on 16 June 2019.

The Group recognized a net share award expense of HK$206,000 during the six months ended 30 June 2019 (2018: HK$1,336,000).

Corporate Governance and Other Information

Corporate Governance

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

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

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

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

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

Audit Committee

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

Review of the Interim Results

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 has been reviewed by the auditors of the Company, 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 interim report of the Group for the six months ended 30 June 2019 has also been reviewed and passed by the Audit Committee.

The Model Code for Securities Transactions by Directors

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

Purchase, Sale or Redemption of the Company's Listed Securities

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

Shareholder's Loan Capitalisation

On 12 June 2019, the loan capitalisation agreement (the "Loan Capitalisation Agreement") was entered into between the Company and Mr. Abraham Chan, pursuant to which the Company as issuer conditionally agreed to allot and issue and Mr. Abraham Chan as the subscriber conditionally agreed to subscribe for 15,544,041 new Shares (the "Capitalisation Share(s)") at the issue price of HK$1.93 per Capitalisation Share under specific mandate for capitalising HK$30,000,000 from the outstanding principal amount of the shareholder's loan of HK$45,000,000 (the "Loan Capitalisation").

As Mr. Abraham Chan is the chairman of the Board, the chief executive officer, the executive Director and a controlling Shareholder of the Company, Mr. Abraham Chan is a connected person under the Listing Rules and the Loan Capitalisation constitutes a non-exempted connected transaction under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. For further information in relation to the Loan Capitalisation, please refer to the announcement of the Company dated 12 June 2019 and the circular of the Company dated 24 July 2019.

Important Events since the end of the Reporting Period

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

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

Interim Dividend

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

Independent Review Report

EY 安永

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Purapharm Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 21 to 64, which comprises the interim condensed consolidated statement of financial position as at 30 June 2019 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months then ended (the "Reporting Period"), 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 provision there of and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements 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 Hong Kong Institute of Certified Public Accountants. 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
27 August 2019

Interim Condensed Consolidated Statement of Profit or Loss

	Notes	Six months ended 30 June 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
REVENUE	5	**333,558**	386,604
Cost of sales		**(140,112)**	(150,293)
Gross profit		**193,446**	236,311
Other income and gains	5	**6,752**	15,514
Selling and distribution expenses		**(115,856)**	(115,979)
Administrative expenses		**(105,707)**	(105,712)
Impairment of financial assets, net		**(2,690)**	(801)
Other expenses		**(5,177)**	(2,556)
Finance costs	7	**(13,516)**	(11,085)
(LOSS)/PROFIT BEFORE TAX	6	**(42,748)**	15,692
Income tax expense	8	**(2,432)**	(2,344)
(LOSS)/PROFIT FOR THE PERIOD		**(45,180)**	13,348
Attributable to owners of the parent		**(45,180)**	13,348
(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	**(18.4)**	5.5
Diluted			
— For (loss)/profit for the period	10	**(18.4)**	5.4

Interim Condensed Consolidated Statement of Comprehensive Income

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

Interim Condensed Consolidated Statement of Financial Position

	Notes	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**254,557**	294,676
Right-of-use assets		**136,810**	–
Prepaid land lease payments		**–**	45,622
Investment properties		**8,425**	–
Other intangible assets		**34,911**	36,190
Goodwill	12	**155,685**	155,685
Financial assets at fair value through profit or loss	13	**10,831**	10,741
Biological assets	15	**33,214**	28,386
Prepayments for non-current assets	17	**68,994**	13,196
Deferred tax assets		**17,614**	16,383
Total non-current assets		**721,041**	600,879
CURRENT ASSETS			
Inventories	14	**190,134**	214,033
Biological assets	15	**46,218**	45,461
Trade and bills receivables	16	**241,298**	290,657
Prepayments, deposits and other receivables	17	**67,952**	66,402
Tax recoverable		**–**	1,787
Pledged bank deposits	18	**16,957**	9,000
Cash and cash equivalents	18	**57,410**	104,884
Total current assets		**619,969**	732,224
CURRENT LIABILITIES			
Trade and bills payables	19	**143,500**	139,201
Other payables and accruals		**92,532**	71,426
Lease liabilities		**33,280**	–
Interest-bearing bank and other borrowings	20	**315,775**	354,028
Loans from a director	21	**45,000**	30,000
Tax payable		**4,412**	3,712
Government grants		**3,155**	2,358
Total current liabilities		**637,654**	600,725
NET CURRENT (LIABILITIES)/ASSETS		**(17,685)**	131,499
TOTAL ASSETS LESS CURRENT LIABILITIES		**703,356**	732,378

Interim Condensed Consolidated Statement of Financial Position

	Notes	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**703,356**	732,378
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	20	**129,391**	164,449
Lease liabilities		**54,675**	–
Government grants		**957**	3,194
Deferred tax liabilities		**2,282**	2,516
Total non-current liabilities		**187,305**	170,159
Net assets		**516,051**	562,219
EQUITY			
Equity attributable to owners of the parent			
Share capital	22	**191,981**	191,981
Shares held for share award scheme	23(b)	**(7,238)**	(8,200)
Reserves	24	**331,308**	378,438
Total equity		**516,051**	562,219

Director

Director

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent										
	Share capital HK$'000 (note 22)	Share premium HK$'000 (note 22)	Shares held for share award scheme HK$'000 (note 23(b))	Reserve for share award and share option HK$'000 (note 23)	Merger reserve HK$'000 (note 24)	Surplus reserves HK$'000 (note 24)	Capital reserve HK$'000 (note 24)	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
At 31 December 2018 (audited)	191,981	206,811	(8,200)	2,382	1,814	28,646	(7,505)	–	(9,457)	155,747	562,219
Loss for the period	–	–	–	–	–	–	–	–	–	(45,180)	(45,180)
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(1991)	–	(1,991)
Total comprehensive loss for the period	–	–	–	–	–	–	–	–	(1,991)	(45,180)	(47,171)
Recognition of share option (note 23(a))	–	–	–	797	–	–	–	–	–	–	797
Recognition of equity-settled share award (note 23(b))	–	–	–	741	–	–	–	–	–	–	741
Forfeiting of Share Award Scheme	–	–	–	(535)	–	–	–	–	–	–	(535)
Vesting of Share Award Scheme	–	81	962	(1,043)	–	–	–	–	–	–	–
At 30 June 2019 (unaudited)	191,981	206,892*	(7,238)	2,342*	1,814*	28,646*	(7,505)*	–	(11,448)*	110,567*	516,051

* These reserve accounts comprise the consolidated reserves of HK$331,308,000 (30 June 2018: 379,268,000) in the interim condensed consolidated statement of financial position as at 30 June 2019.

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent										
	Share capital HK$'000 (note 22)	Share premium HK$'000 (note 22)	Shares held for share award scheme HK$'000 (note 23(b))	Reserve for share award and share option HK$'000 (note 23)	Merger reserve HK$'000 (note 24)	Surplus reserves HK$'000 (note 24)	Capital reserve HK$'000 (note 24)	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
At 31 December 2017 (audited)	191,981	206,672	(10,019)	2,226	1,814	27,307	(7,505)	(534)	326	136,814	549,082
Restated opening balance under HKFRS 9	–	–	–	–	–	–	–	534	–	(534)	–
At 31 December 2017 and 1 January 2018 (restated)	191,981	206,672	(10,019)	2,226	1,814	27,307	(7,505)	–	326	136,280	549,082
Profit for the period	–	–	–	–	–	–	–	–	–	13,348	13,348
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(717)	–	(717)
Total comprehensive income for the period	–	–	–	–	–	–	–	–	(717)	13,348	12,631
Recognition of equity-settled share award	–	–	–	1,947	–	–	–	–	–	–	1,947
Forfeiting of Share Award Scheme	–	–	–	(611)	–	–	–	–	–	–	(611)
Vesting of Share Award Scheme	–	139	1,819	(1,958)	–	–	–	–	–	–	–
At 30 June 2018 (unaudited)	191,981	206,811*	(8,200)	1,604*	1,814*	27,307*	(7,505)*	–	(391)*	149,628*	563,049

Interim Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 30 June 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax:		**(42,748)**	15,692
Adjustments for:			
Finance costs	7	**13,516**	11,085
Foreign exchange loss, net	6	**610**	332
Fair value loss/(gain) on biological assets	6	**915**	(3,360)
Loss on disposal of property, plant and equipment	6	**1,740**	928
Fair value gain on financial assets at fair value through profit or loss	5	**(90)**	(318)
Share option expense	23(a)	**797**	–
Equity-settled share award expense	23(b)	**206**	1,336
Depreciation of property, plant and equipment	6	**14,903**	13,660
Depreciation of right-of-use assets	6	**14,728**	–
Amortisation of prepaid land lease payments	6	**–**	1,478
Amortisation of other intangible assets	6	**1,930**	1,448
Write-down of inventories to net realisable value	6	**2,632**	1,271
Bank interest income	5	**(223)**	(221)
Impairment of trade and bills receivables	6	**2,690**	801
		11,606	44,132
Decrease in inventories		**29,622**	25,689
Increase in biological assets		**(15,264)**	(5,044)
Increase/(decrease) in trade and bills receivables		**43,885**	(27,983)
Increase in prepayments, deposits and other receivables		**(3,712)**	(496)
Increase in trade and bills payables		**6,201**	2,274
Increase/(decrease) in government grants		**(1,387)**	672
Increase/(decrease) in other payables and accruals		**(10,315)**	7,867
Cash generated used in operations		**60,636**	47,111
Interest received		**223**	221
Interest element of finance lease rental payments		**(2,738)**	–
Hong Kong income tax paid		**(784)**	(303)
Overseas profits tax paid		**(597)**	(181)
PRC corporate income tax paid		**(112)**	(2,228)
Net cash flows generated from operating activities		**56,628**	44,620

Interim Condensed Consolidated Statement of Cash Flows

	Notes	2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
		Six months ended 30 June	
Net cash flows generated from operating activities		**56,628**	44,620
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of financial assets at fair value through profit or loss	13	**–**	11,685
Purchases of property, plant and equipment		**(11,828)**	(30,522)
Purchases of right-of-use assets		**(26,609)**	–
Proceeds from disposal of items of property, plant and equipment		**128**	2,061
Addition to intangible assets		**(661)**	(3,248)
Increase in pledged deposits		**(7,957)**	–
Net cash flows used in investing activities		**(46,927)**	(20,024)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**140,276**	265,207
Repayment of bank loans		**(189,205)**	(340,342)
Loans from a director	21	**15,000**	50,000
Interest paid		**(10,775)**	(12,563)
Principal portion of lease payment		**(17,639)**	–
Net cash flows generated used in financing activities		**(62,343)**	(37,698)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(52,642)**	(13,102)
Cash and cash equivalents at beginning of period		**90,516**	86,805
Effect of foreign exchange rate changes, net		**1,881**	1,860
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**39,755**	75,563
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**57,410**	83,390
Bank overdrafts		**(17,655)**	(7,827)
		39,755	75,563

Notes to Interim Condensed Consolidated Financial Statements

1. Corporate Information and Reorganisation

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

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

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

2. Basis of Preparation

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

2. Basis of Preparation (continued)

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

(a) The Group continues to restructure the mix of products with the aim to increase the portion of products with higher margin so as to attain profitable and positive cash flow operations;

(b) The Group is taking measures to tighten cost controls over administrative and other operating expenses aiming at improving the working capital and cash flow position of the Group; and

(c) As at 30 June 2019, the Group recorded unutilised bank facilities amounting to HK$180.1 million. Therefore, upon repayment when due or on demand, subject to the condition that the Group will be able to repay the total principal and interest due upon the respective repayment dates. Based on the abovementioned agreements and past experience, the directors consider it is highly probable that the Group can extend adequate amount of short-term bank loans for another year when fall due to maintain sufficient working capital of the Group.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with the unutilised bank facilities and capitalisation of loans from a director (note 29), the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the six months ended 30 June 2019 on a going concern basis.

3.1 Changes in Accounting Policies and Disclosures

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

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

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

HKFRS 16

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

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

New definition of a lease

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

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

3.1 Changes in Accounting Policies and Disclosures (continued)

HKFRS 16 (continued)

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impacts on transition

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

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

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

3.1 Changes in Accounting Policies and Disclosures (continued)

HKFRS 16 (continued)

Impacts on transition (continued)

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

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

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

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

3.1 Changes in Accounting Policies and Disclosures (continued)

HKFRS 16 (continued)

Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

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

3.1 Changes in Accounting Policies and Disclosures (continued)

HKFRS 16 (continued)

Summary of new accounting policies (continued)

Lease liabilities (continued)

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

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

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

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

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

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

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

3.2 Issued but not yet Effective HKFRSs

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKFRS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

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

4. Operating Segment Information

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

(a) the China CCMG segment mainly engages in the production and sale of CCMG products in China;

(b) the Hong Kong CCMG segment mainly engages in the sale of CCMG products excluding the sales through self-operated clinics in Hong Kong;

(c) the Chinese healthcare products segment mainly engages in the production and sale of Chinese healthcare products in Hong Kong, the USA and Japan;

(d) the clinics segment mainly engages in the provision of Chinese medical diagnostic services and sale of CCMG products through self-operated clinics; and

(e) the plantation segment mainly engages in the plantation and trading of raw Chinese herbs, and manufacture and sale of TCM decoction pieces.

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

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

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

4. Operating Segment Information (continued)

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

Six months ended 30 June 2019 (Unaudited)

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

4. Operating Segment Information (continued)

Six months ended 30 June 2018 (Unaudited)

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

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 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
Revenue from contracts with customers		
Sales of CCMG products	**256,609**	283,577
Sales of Chinese healthcare products	**48,508**	48,555
Sales of raw Chinese herbs	**15,553**	43,169
Rendering of Chinese medical diagnostic services (the "Diagnostic Services")	**12,888**	11,303
	333,558	386,604

Disaggregated revenue information

For the six months ended 30 June 2019

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

5. Revenue, Other Income and Gains (continued)

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Other income and gains		
Government grants*	**4,595**	10,511
Fair value gain on biological assets, net	**–**	3,360
Gain from the sale of equipment and accessories	**1,271**	996
Fair value gain on financial assets at fair value through profit or loss (note 13)	**90**	318
Bank interest income	**223**	221
Others	**573**	108
	6,752	15,514

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

6. Profit before tax

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**130,954**	142,755
Cost of services provided	**6,526**	6,267
Depreciation of property, plant and equipment	**14,903**	13,660
Depreciation of right-of-use assets	**14,728**	–
Amortisation of prepaid land lease payments	**–**	1,478
Amortisation of other intangible assets	**1,930**	1,448
Research and development costs*	**11,856**	9,015
Minimum lease payments under operating leases:		
Office equipment	**50**	98
Land and buildings	**3,961**	18,587
	4,011	18,685
Auditors' remuneration	**1,583**	1,468
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	**50,413**	48,899
Pension scheme contributions	**5,932**	6,822
Share option expenses (note 23(a))	**72**	–
Equity-settled share award expenses (note 23(b))	**(90)**	605
	56,327	56,326
Foreign exchange loss, net**	**610**	332
Fair value loss/(gain) on biological assets, net	**915**	(3,360)
Loss on disposal of items of property, plant and equipment	**1,740**	928
Impairment of financial and contract asset, net:		
Impairment of trade and bills receivables, net	**2,690**	801
Write-down of inventories to net realisable value ***	**2,632**	1,271

* Included in the research and development costs, there are expenditure of HK$1,001,000 (six months ended 30 June 2018: HK$401,000) disclosed in the item of "depreciation" and HK$4,250,000 (six months ended 30 June 2018: HK$3,902,000) disclosed in the item of "employee benefit expenses" for the six months ended 30 June 2019.

** The foreign exchange loss is included in "Other expenses" in the interim condensed consolidated statements of profit or loss.

*** The write-down of inventories to net realisable value is included in "Cost of Sales" in the interim condensed consolidated statement of profit or loss.

7. Finance costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	**2,738**	–
Interest on bank loans and other borrowing and overdrafts	**12,164**	12,563
Less: Interest capitalised	**(1,386)**	(1,478)
	13,516	11,085

8. Income tax expense

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

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current	**3,934**	4,121
Deferred	**(1,502)**	(1,777)
Total tax charge for the period	**2,432**	2,344

9. Dividend

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

10. Earnings/(Loss) Per Share

(a) Basic

Basic earnings or loss per share is calculated by dividing the profit or loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2019 excluding ordinary shares purchased by the Group and held for Award Scheme (note 23(b)).

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

(b) Diluted

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

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

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

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

11. Property, Plant and Equipment

During the Reporting Period, the Group purchased property, plant and equipment with an aggregate cost of HK$12,552,000 (six months ended 30 June 2018: HK$19,436,000) and capitalised interest expense of HK$1,386,000 (six months ended 30 June 2018: 1,478,000).

During the Reporting Period, property, plant and equipment with an aggregate carrying amount of HK$1,868,000 (six months ended 30 June 2018: HK$2,552,000) were disposed by the Group.

12. Goodwill

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
At 30 June/31 December	**155,685**	155,685

Impairment testing of goodwill

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

- Plantation CGU;
- Chinese herbal products CGU; and
- SODX Co., Ltd CGU ("SODX CGU").

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

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Plantation CGU	**134,692**	134,692
Chinese herbal products CGU	**13,705**	13,705
SODX CGU	**7,288**	7,288
	155,685	155,685

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

12. Goodwill (continued)

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

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

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

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

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

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

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

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

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

13. Financial Assets at Fair Value Through Profit or Loss

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Life insurance policies, at fair value	**10,831**	10,741

The Group financial assets at fair value through profit or loss represented the two life insurance policies (31 December 2018: two) 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 2019 and 31 December 2018, 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 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Raw materials	**82,265**	84,686
Work in progress	**25,762**	45,671
Finished goods	**88,391**	89,752
	196,418	220,109
Less: provision	**(6,284)**	(6,076)
	190,134	214,033

15. Biological Assets

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
As at 1 January	**73,847**	37,147
Addition during the period	**15,264**	26,705
Fair value (loss)/gain on biological assets, net	**(915)**	26,553
Harvest during the period	**(7,682)**	(14,380)
Exchange realignment	**(1,082)**	(2,178)
As at 30 June/31 December	**79,432**	73,847
Portion classified as non-current portion	**(33,214)**	(28,386)
Current portion	**46,218**	45,461

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$7,682,000 (31 December 2018: HK$14,380,000) 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.

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 17% is applied to the projection of the Periodic Cash Flow.

15. Biological Assets (continued)

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 Chinese medicinal materials is accompanied by a directionally similar change in the price growth rate of raw Chinese herbs per annum and the discount rate and an opposite change in the estimated production volume.

16. Trade and Bills Receivables

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

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to six months, extending up to longer periods for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Within 1 months	**62,026**	103,620
1 to 3 months	**54,249**	58,895
3 to 6 months	**38,529**	44,861
Over 6 months	**86,494**	83,281
	241,298	290,657

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

17. Prepayments, Deposits and Other Receivables

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

18. Cash and Cash Equivalents and Pledged Deposits

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Cash and bank balances	**57,410**	104,884
Time deposits	**16,957**	9,000
	74,367	113,884
Less: Pledged time deposits for bank loans and bills payables	**(16,957)**	(9,000)
Cash and cash equivalents	**57,410**	104,884
Cash and cash equivalents are dominated in:		
Renminbi ("RMB")	**25,161**	77,959
HK$	**17,491**	12,591
Japanese yen ("JPY")	**8,629**	8,403
Canadian dollar ("CAD")	**28**	121
Australian dollar ("AUD")	**245**	772
US dollar ("US$")	**5,856**	5,038
Cash and cash equivalents	**57,410**	104,884

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 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Within 1 month	**33,327**	41,106
1 to 2 months	**6,562**	5,939
2 to 3 months	**9,232**	14,007
Over 3 months	**94,379**	78,149
	143,500	139,201

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

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

20. Interest-Bearing Bank and Other Borrowings

	30 June 2019 (Unaudited) Effective interest rate (%)	Maturity	HK$'000
Current			
Bank overdraft — unsecured	4.38–5.25	On demand	17,655
Bank loans — secured	2.25–6.06	On demand	86,964
Bank loans — secured	0.85–8.00	2019–2020	87,884
Bank loans — unsecured	2.23–4.50	On demand	107,536
Bank loans — unsecured	4.66–6.18	2019–2020	15,736
			315,775
Non-current			
Bank loans and other borrowings — secured	0.85–8.00	2020–2028	93,643
Bank loans — unsecured	4.50–6.18	2020–2022	35,748
			129,391
Total			445,166

	31 December 2018 (Audited) Effective interest rate (%)	Maturity	HK$'000
Current			
Bank overdraft — secured	4.00–4.13	On demand	6,478
Bank overdraft — unsecured	5.00, 5.13	On demand	7,890
Bank loans — secured	0.85–5.70	2019	138,479
Bank loans — secured	2.00–4.57	On demand	72,574
Bank loans — unsecured	4.66	2019	1,728
Bank loans — unsecured	2.60–6.83	On demand	119,083
Finance lease payables	10.75	2019	7,796
			354,028
Non-current			
Bank loans — secured	0.85–8.00	2020–2028	107,115
Bank loans and other borrowings — unsecured	4.66–6.18	2021–2022	41,008
Finance lease payables	10.75	2021	16,326
			164,449
Total			518,477

20. Interest-Bearing Bank and Other Borrowings (continued)

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Analysed into:		
Bank loans and other borrowings payable:		
Within one year or on demand	**315,775**	354,028
In the second year	**32,847**	55,044
In the third to fifth years, inclusive	**74,571**	107,696
Beyond five years	**21,973**	1,709
	445,166	518,477

Interest-bearing bank and other borrowings are denominated in:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
HK$	**204,525**	253,128
RMB	**230,006**	254,593
JPY	**3,503**	3,624
US$	**7,132**	7,132
	445,166	518,477

(a) HK Interpretation 5 "Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" requires that a loan which includes a clause that gives the lender the unconditional right to call the loan at any time ("repayment on demand clause") shall be classified in total by the borrower as current in the condensed consolidated statements of financial position. Interest-bearing bank loans of the Group in the amount of HK$212,155,000 (31 December 2018: HK$206,025,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$82,060,000 (31 December 2018: HK$53,154,000) that is repayable after one year from the end of the Reporting Period has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.

(b) As at 30 June 2019, the Group's bank loans amounting to approximately HK$188,111,000 (31 December 2018: HK$54,715,000) were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since they all included the repayment on demand clause and have already been classified as current liabilities as mentioned in above (a).

20. Interest-Bearing Bank and Other Borrowings (continued)

(c) As at 30 June 2019, the Group's bank facilities including overdraft amounting to HK$625,252,000 (31 December 2018: HK$534,084,000) of which HK$445,166,000 (31 December 2018: HK$494,355,000) had been utilised.

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

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

21. Loans from a Director

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Loans from a director	**45,000**	30,000

On 14 March 2018, the Group entered into a loan agreement with Mr. Abraham Chan, in which Mr. Abraham Chan agreed to make loan facility up to HK$50 million to the Group for financing the general corporate funding requirements. During the Reporting Period, the Group drew down HK$15 million for such facility.

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

22. Share Capital

	30 June 2019 HK$'000	31 December 2018 HK$'000
Authorised:		
50,000,000,000 ordinary shares of US$0.1 (HK$0.775) each	**38,750,000**	38,750,000
Issued and fully paid:		
247,717,920 (31 December 2018: 247,717,920) ordinary shares of US$0.1 (HK$0.775) each	**191,981**	191,981

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 31 December 2018 and 1 January 2019	247,717,920	191,981	206,811	398,792
Vesting of Share Award Scheme (note 23(b))	–	–	81	81
At 30 June 2019	247,717,920	191,981	206,892	398,873

23. Share Option Scheme and Shares Held for the Share Award Scheme

(a) Share option scheme

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

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

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

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

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

23. Share Option Scheme and Shares Held for the Share Award Scheme (continued)

(a) Share option scheme (continued)

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

	Six months ended 30 June 2019 HK$ (Unaudited)
Share option expenses recognised during the period	797
Less: Included in directors' remuneration	(725)
Employee benefit expenses	72

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

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

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

30 June 2019

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

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

23. Share Option Scheme and Shares Held for the Share Award Scheme (continued)

(a) Share option scheme (continued)

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

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

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

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

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

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

23. Share Option Scheme and Shares Held for the Share Award Scheme (continued)

(b) Shares held for the share award scheme

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

1. to recognise and motivate the contributions by certain Eligible Award Participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;

2. to attract suitable personnel for further development of the Group; and

3. to provide certain Eligible Award Participants with a direct economic interest in attaining a long-term relationship between the Group and certain Eligible Award Participants.

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

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

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

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

23. Share Option Scheme and Shares Held for the Share Award Scheme (continued)

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

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

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

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

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

24. 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.

25. Operating Lease Arrangements

As lessee

The Group leases certain of its plantation base, warehouses, clinics, office buildings and office equipment under operating lease arrangements. Leases for plantation base, warehouses, clinics, office buildings and office equipment are negotiated for terms ranging from one to twenty years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Within one year	**5,213**	29,270
In the second to fifth years, inclusive	**–**	35,440
Over five years	**–**	11,545
	5,213	76,255

26. Commitments

In addition to the operating lease commitments detailed in note 25 above, the Group had the following capital commitments at the end of each of the Reporting Period:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Contracted, but not provided for:		
Land and buildings	27,032	30,119
Plant and machinery	7,656	20,478
	34,688	50,597

27. Related Party Transactions

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

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

Name of related parties	Relationship
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Director of the Company
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Director of the Company
Edtoma Corporate Services Limited ("Edtoma")	Company significantly influenced by Mr. Eddie Chan
CWCC Consultancy Limited ("CWCC")	Company significantly influenced by Mr. Eddie Chan
Golden Sparkle Plantation Holding Limited ("Golden Sparkle Plantation")	Company controlled by Mr. Abraham Chan

27. Related Party Transactions (continued)

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

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

Notes:

(i) On 14 March 2018, the Group entered into a loan agreement with Mr. Abraham Chan, in which Mr. Abraham Chan agreed to make loan facility up to HK$50 million to the Group for financing the general corporate funding requirements. During the period ended 30 June 2019, the Group drew down HK$15 million for such facility. The interest expense in relation to the aforesaid loans from to a director was accrued at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to loans offered by the banks to the Group.

(ii) The professional service fees were paid to Edtoma and CWCC, over which Mr. Eddie Chan has significant influence, under a price mutually agreed by both parties. The Directors consider that the service charges offered by the supplier were in line with its other suppliers.

(c) Outstanding balances with related parties:

	30 June 2019		31 December 2018	
		Maximum amount outstanding		Maximum amount outstanding
	HK$'000	**HK$'000**	HK$'000	HK$'000
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Loans from a director				
Mr. Abraham Chan	**45,000**	**45,000**	30,000	50,000

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

27. Related Party Transactions (continued)

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**2,139**	2,239
Pension scheme contributions	**27**	27
Share option expense (note 23(a))	**725**	–
Equity-settled share award expense (note 23(b))	**296**	731
	3,187	2,997

28. Fair Value and Fair Value Hierarchy of Financial Instruments

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

Management has assessed that:

(a) The fair value of the financial assets at fair value through profit or loss has been estimated based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data; and

(b) The fair values of the Group's financial assets classified as loans and receivables and financial liabilities were approximate to their carrying amounts largely due to the short term maturities of these instruments.

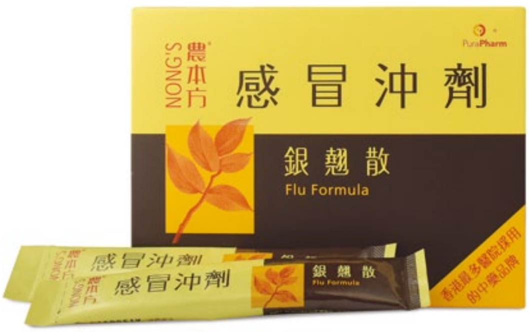
There were no transfers of fair value measurements during the six months ended 30 June 2019.

29. Events After the Reporting Period

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

30. Approval of Financial Statements

The interim condensed consolidated financial statements were approved and authorised for issue by board of directors on 27 August 2019.



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