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PuraPharm

PURAPHARM CORPORATION LIMITED

培力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1498)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Year ended 31 December					
	2020 HK\$000	% of total	2019 HK\$000	% of total	Change HK\$000	%
Revenue						
— China CCMG	278,478	46.3%	285,220	41.0%	(6,742)	-2.4%
— Hong Kong CCMG	146,433	24.3%	161,573	23.2%	(15,140)	-9.4%
— Chinese healthcare products	85,752	14.2%	90,429	13.0%	(4,677)	-5.2%
— Nong's ® (農本方®)						
Chinese medicine clinics	49,924	8.3%	96,413	13.9%	(46,489)	-48.2%
— Plantation	41,228	6.9%	62,244	8.9%	(21,016)	-33.8%
	601,815	100.0%	695,879	100.0%	(94,064)	-13.5%
Gross profit	369,949		398,839		(28,890)	-7.2%
Net profit/(loss) for the year	31,710		(227,258)		258,968	N/A

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
REVENUE	5	601,815	695,879
Cost of sales		(231,866)	(297,040)
Gross profit		369,949	398,839
Other income and gains	5	94,727	17,467
Selling and distribution expenses		(210,539)	(226,212)
Administrative expenses		(153,457)	(228,482)
Impairment loss on property, plant and equipment		(229)	(19,063)
Impairment loss on right-of-use assets		—	(22,380)
Impairment loss on goodwill		—	(67,346)
Impairment losses on financial assets, net		(10,831)	(5,391)
Other expenses		(22,573)	(36,379)
Finance costs		(26,830)	(27,203)
PROFIT/(LOSS) BEFORE TAX	6	40,217	(216,150)
Income tax expense	7	(8,507)	(11,108)
PROFIT/(LOSS) FOR THE YEAR		<u>31,710</u>	<u>(227,258)</u>
Attributable to owners of the parent		31,710	(227,258)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
— For profit/(loss) for the year (expressed in HK cents per share)		<u>8.55</u>	<u>(87.16)</u>
Diluted			
— For profit/(loss) for the year (expressed in HK cents per share)		<u>8.54</u>	<u>(87.16)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE YEAR	<u>31,710</u>	<u>(227,258)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	<u>14,136</u>	<u>(6,700)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>14,136</u>	<u>(6,700)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>45,846</u>	<u>(233,958)</u>
Attributable to:		
Owners of the parent	<u>45,846</u>	<u>(233,958)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		322,839	239,356
Investment properties		7,568	7,557
Right-of-use assets		136,513	121,117
Goodwill		88,339	88,339
Other intangible assets		42,920	34,275
Financial assets at fair value through profit or loss		18,258	18,195
Biological assets		95,084	52,436
Prepayments for non-current assets		44,087	50,902
Deferred tax assets		11,291	12,363
		<hr/>	<hr/>
Total non-current assets		766,899	624,540
CURRENT ASSETS			
Inventories		180,124	200,888
Biological assets		10,026	10,077
Trade and bills receivables	<i>11</i>	221,528	230,734
Prepayments, other receivables and other assets		68,637	62,879
Tax recoverable		906	—
Pledged deposits		35,056	25,115
Cash and cash equivalents		91,401	68,009
		<hr/>	<hr/>
Total current assets		607,678	597,702
CURRENT LIABILITIES			
Trade and bills payables	<i>12</i>	159,344	178,985
Other payables and accruals		110,318	97,285
Interest-bearing bank and other borrowings	<i>13</i>	279,329	312,282
Lease liabilities		31,402	28,030
Loans from a director		—	15,000
Amount due to a related company		5,900	—
Tax payable		2,845	5,850
Government grants		2,749	1,648
		<hr/>	<hr/>
Total current liabilities		591,887	639,080
NET CURRENT ASSETS/ (LIABILITIES)			
		<hr/> 15,791 <hr/>	<hr/> (41,378) <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/> 782,690 <hr/>	<hr/> 583,162 <hr/>

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
NON-CURRENT LIABILITIES			
Other payables and accruals		50,564	30,173
Interest-bearing bank and other borrowings	<i>13</i>	178,992	143,715
Lease liabilities		34,388	42,506
Government grants		3,853	2,038
Deferred tax liabilities		3,235	2,607
		<hr/>	<hr/>
Total non-current liabilities		271,032	221,039
		<hr/>	<hr/>
Net assets		511,658	362,123
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>14</i>	306,042	204,028
Shares held for share award scheme		(6,258)	(7,200)
Reserves		211,874	165,295
		<hr/>	<hr/>
Total equity		511,658	362,123
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		40,217	(216,150)
Adjustments for:			
Finance costs		26,830	27,203
Bank interest income	5	(456)	(592)
Foreign exchange (gain)/loss, net	6	(3,996)	2,405
Loss on disposal of property, plant and equipment	6	2,109	3,149
Equity-settled share award and share option expenses		5,641	4,223
Covid-19-related rent concessions from lessors		(1,970)	—
Depreciation of property, plant and equipment	6	21,244	29,370
Depreciation of right-of-use assets	6	22,116	33,620
Amortisation of intangible assets	6	4,266	3,765
Fair value loss on investment properties	6	464	1,452
Fair value (gain)/loss on financial assets at fair value through profit or loss	6	(63)	1,546
Fair value (gain)/loss on biological assets	6	(20,800)	19,642
Impairment loss on property, plant and equipment	6	229	19,063
Impairment loss on right-of-use assets	6	—	22,380
Impairment loss on goodwill	6	—	67,346
Impairment loss on other intangible assets	6	—	54
Write-down of inventories to net realisable value	6	2,738	6,286
Impairment loss on trade and bills receivables	6	10,831	5,391
		109,400	30,153

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Decrease in inventories	39,451	33,396
Increase in biological assets	(28,109)	(41,439)
Decrease in trade and bills receivables	10,679	47,875
(Increase)/decrease in prepayments, deposits and other receivables	(2,716)	804
(Decrease)/increase in trade and bills payables	(29,621)	44,412
Increase/(decrease) in government grants	2,521	(1,724)
Increase in other payables and accruals	28,001	20,396
	<hr/>	<hr/>
Cash generated from operations	129,606	133,873
Interest received	456	592
Hong Kong profits tax paid	(4,954)	(514)
Overseas profits tax paid	(1,857)	(2,190)
PRC profit taxes paid	(3,397)	(561)
	<hr/>	<hr/>
Net cash flows generated from operating activities	119,854	131,200
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(76,047)	(66,427)
Acquisition of right-of-use assets	—	(28,518)
Proceeds from disposal of property, plant and equipment	677	—
Additions to intangible assets	(6,799)	(2,014)
Purchase of financial assets at fair value through profit or loss	—	(9,000)
Increase in pledged time deposits, net	(9,941)	(16,115)
Receipt of retention money from a construction project	—	30,613
	<hr/>	<hr/>
Net cash flows used in investing activities	(92,110)	(91,461)

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		407,188	333,417
Repayment of bank loans and other borrowings		(424,775)	(367,318)
Share issue expenses	<i>14</i>	(7,257)	(361)
Proceeds from issue of shares	<i>14</i>	105,305	—
Loans (paid to)/from a director		(15,000)	15,000
Principal portion of lease payments		(35,902)	(30,719)
Interest paid for lease liabilities		(4,528)	(5,501)
Interest paid for bank and other borrowings		(28,644)	(23,764)
Net cash flows used in financing activities		(3,613)	(79,246)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		24,131	(39,507)
Effect of foreign exchange rate changes, net		50,429	90,516
		1,250	(580)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		75,810	50,429
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		91,401	68,009
Bank overdrafts		(15,591)	(17,580)
Cash and cash equivalents as stated in the statement of cash flows		75,810	50,429

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

2 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the current year's financial statements.

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

Other than as further explained below, the adoption of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the consolidated financial statements.

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

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's plant and machinery have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$1,970,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{3,6}</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{3,5}</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract²</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41²</i>

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

The Group expects that the adoption of the above new and revised standards will have no significant impact on the Group's 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 healthcare products in Hong Kong, the USA and Japan;
- (d) the clinics segment mainly engages in the provision of Chinese medical diagnostic services and sale of CCMG products through self-operated clinics; and
- (e) the plantation segment mainly engages in the plantation and trading of raw Chinese herbs, and the manufacture and sale of TCM decoction pieces.

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

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

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2020 and 2019.

31 December 2020

	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 (note 5):							
External customers	278,478	146,433	85,752	49,924	41,228	—	601,815
Intersegment sales	72,050	7,901	1,261	—	2,588	(83,800)	—
	<u>350,528</u>	<u>154,334</u>	<u>87,013</u>	<u>49,924</u>	<u>43,816</u>	<u>(83,800)</u>	<u>601,815</u>
Segment results	29,366	32,815	13,527	(3,232)	38,993	—	111,469
<i>Reconciliations:</i>							
Interest income							456
Foreign exchange gain, net							3,996
Equity-settled share award and share option expenses							(5,641)
Finance costs (other than interest on lease liabilities)							(22,302)
Corporate and other unallocated expenses							(47,761)
Profit before tax							40,217
Income tax expense							(8,507)
Net Profit							<u>31,710</u>
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible asset	11,127	2,771	4,058	2,511	5,043	—	25,510
Depreciation of right-of-use asset	7,968	1,155	5,443	5,390	2,160	—	22,116
Loss on disposal of items of property, plant and equipment	1,389	173	161	386	—	—	2,109
Write-down of inventories to net realisable value	1,779	296	663	—	—	—	2,738
Impairment loss on property, plant and equipment	229	—	—	—	—	—	229
(Reversal of) impairment loss on trade and bills receivables	8,170	(105)	(28)	—	2,794	—	10,831
Government grants	20,048	1,811	1,112	3,608	39,220	—	65,799
Capital expenditure*	<u>74,752</u>	<u>10,451</u>	<u>28,742</u>	<u>10,455</u>	<u>6,130</u>	<u>—</u>	<u>130,530</u>

31 December 2019

	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 (note 5):							
External customers	285,220	161,573	90,429	96,413	62,244	—	695,879
Intersegment sales	100,421	15,924	971	—	46,113	(163,429)	—
	<u>385,641</u>	<u>177,497</u>	<u>91,400</u>	<u>96,413</u>	<u>108,357</u>	<u>(163,429)</u>	<u>695,879</u>
Segment results	(10,606)	32,561	14,769	(65,437)	(104,272)	—	(132,985)
<i>Reconciliations:</i>							
Interest income							592
Foreign exchange loss, net							(2,405)
Equity-settled share award and share option expenses							(4,223)
Finance costs (other than interest on lease liabilities)							(21,702)
Corporate and other unallocated expenses							(55,427)
Loss before tax							(216,150)
Income tax expense							(11,108)
Net Loss							<u>(227,258)</u>
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible asset	9,315	2,642	3,361	13,184	4,633	—	33,135
Depreciation of right-of-use asset	8,890	1,155	1,922	19,679	1,974	—	33,620
Loss on disposal of items of property, plant and equipment	—	—	—	3,149	—	—	3,149
Write-down of inventories to net realisable value	5,681	605	—	—	—	—	6,286
Impairment loss on property, plant and equipment, other intangible assets and right-of-use assets	1,882	—	—	39,615	—	—	41,497
Impairment loss on goodwill	—	—	—	—	67,346	—	67,346
Impairment loss on trade and bills receivables	4,220	403	98	—	670	—	5,391
Government grants	12,053	—	—	—	—	—	12,053
Capital expenditure*	<u>11,698</u>	<u>4,713</u>	<u>8,163</u>	<u>25,952</u>	<u>42,395</u>	<u>—</u>	<u>92,921</u>

* Capital Expenditure consists of additions of property, plant and equipment, investment properties, right-of-use assets and other intangible assets including assets from the acquisition of subsidiary.

5. REVENUE, OTHER INCOME AND GAINS

(a) REVENUE

An analysis of revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<i>Revenue from contracts with customers</i>		
Sale of CCMG products	462,284	517,453
Sale of Chinese healthcare products	85,752	90,429
Sale of raw Chinese herbs	41,228	62,244
Rendering of Diagnostic Services	12,551	25,753
	<u>601,815</u>	<u>695,879</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

Segments	For the year ended 31 December					
	2020			2019		
	Sale of goods <i>HK\$'000</i>	Diagnostic services <i>HK\$'000</i>	Total <i>HK\$'000</i>	Sale of goods <i>HK\$'000</i>	Diagnostic services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or services						
Sale of goods	589,264	—	589,264	670,126	—	670,126
Rendering of services	—	12,551	12,551	—	25,753	25,753
Total revenue from contracts with customers	<u>589,264</u>	<u>12,551</u>	<u>601,815</u>	<u>670,126</u>	<u>25,753</u>	<u>695,879</u>
Geographical markets						
Hong Kong	215,853	12,069	227,922	272,118	25,019	297,137
Mainland China	322,857	482	323,339	350,081	659	350,740
Other countries/regions	50,554	—	50,554	47,927	75	48,002
Total revenue from contracts with customers	<u>589,264</u>	<u>12,551</u>	<u>601,815</u>	<u>670,126</u>	<u>25,753</u>	<u>695,879</u>
Timing of revenue recognition						
Goods transferred at a point in time	589,264	—	589,264	670,126	—	670,126
Services transferred over time	—	12,551	12,551	—	25,753	25,753
Total revenue from contracts with customers	<u>589,264</u>	<u>12,551</u>	<u>601,815</u>	<u>670,126</u>	<u>25,753</u>	<u>695,879</u>

(b) OTHER INCOME AND GAINS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Fair value gain on biological assets, net	20,800	—
Foreign exchange gain, net	3,996	—
Government grants*	65,799	12,053
Gain from the sale of equipment and accessories	1,054	2,447
Bank interest income	456	592
Gross rental income from investment property operating leases:		
Variable lease payments that do not depend on an index or a rate	358	272
Others	2,264	2,103
	94,727	17,467

* The amount represented government grants from the relevant authorities in the PRC and Hong Kong government, which consisted primarily of the PRC subsidies and compensation for operation finance costs, rewarding the Group's industrial investment in poverty area, research and development costs, tax rebates subsidy and grants for improvement of the Group's research facilities in relation to certain research and development projects. Hong Kong subsidies to support enterprise affected by Covid-19 epidemic.

6. PROFIT/(LOSS) BEFORE TAX

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

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold		225,396	283,786
Cost of services provided		6,470	13,254
Depreciation of property, plant and equipment		21,244	29,370
Depreciation of right-of-use assets		22,116	33,620
Amortisation of intangible assets		4,266	3,765
Fair value loss on investment properties*		464	1,452
Fair value (gain)/loss on financial assets at fair value through profit or loss*		(63)	1,546
Fair value (gain)/loss on biological assets, net*		(20,800)	19,642
Impairment loss on property, plant and equipment		229	19,063
Impairment loss on right-of-use assets		—	22,380
Impairment loss on goodwill		—	67,346
Impairment loss on other intangible assets		—	54
Write-down of inventories to net realisable value**		2,738	6,286
Impairment loss on trade and bills receivables	<i>11</i>	10,831	5,391
Litigation claims		11,740	4,000
Lease payments not included in the measurement of lease liabilities		4,457	14,085
Auditors' remuneration		3,440	3,110
Employee benefit expense (excluding directors' remuneration):			
Wages and salaries		78,455	69,678
Pension scheme contributions		8,726	9,481
Equity-settled share award and share option expenses		608	455
Severance payments		—	1,492
		87,789	81,106
Research and development costs***		22,038	34,733
Loss on disposal of property, plant and equipment*		2,109	3,149
Foreign exchange (gain)/loss, net*		(3,996)	2,405

* Fair value gain on financial assets at fair value through profit or loss and biological asset was included in "Other income and gain" in the consolidated statement of profit or loss for the year ended 31 December 2020. The fair value loss on investment properties, financial asset at fair value through profit or loss, and biological asset, loss on disposal of property plant and equipment and foreign exchange loss, net was included in "Other expenses" in the consolidated statement of profit or loss for the year ended 31 December 2019.

** The write-down of inventories to net realisable value was included in the "Cost of sales" in the consolidated statement of profit or loss for the years ended 31 December 2020 and 2019.

*** HK\$1,260,000 (2019: HK\$1,249,000) disclosed in the item of "Depreciation" and HK\$6,428,000 (2019: HK\$7,845,000) disclosed in the item of "Employee benefit expense" were also included in the item of "Research and development costs".

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits/(loss) arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. U.S. and Japan profits taxes have been provided at the rates of 24% (2019: 24%) and 23.2% (2019: 23.2%) on the estimated assessable profits arising in U.S. and Japan, respectively, during the years ended 31 December 2020 and 2019. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, 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., Guizhou Jinping Gold Sparkle Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. have obtained the documentation acknowledged by the tax authority in charge for the Company income tax exemption for year 2020 and the preferential income tax rate was 0%.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current	6,339	7,182
Deferred	<u>2,168</u>	<u>3,926</u>
Total tax charge for the year	<u><u>8,507</u></u>	<u><u>11,108</u></u>

8. DIVIDEND

No dividend was proposed for the years ended 31 December 2020 and 2019.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year ended 31 December 2020 excluding ordinary shares purchased by the Group and held for the Award Scheme.

	2020	2019
Profit/(loss) attributable to ordinary equity holders of the parent (<i>HK\$'000</i>)	31,710	(227,258)
Weighted average number of ordinary shares in issue	<u>370,845,654</u>	<u>260,743,005</u>
Basic earnings/(loss) per share (expressed in HK cents per share)	<u>8.55</u>	<u>(87.16)</u>

The calculation of the weighted average number of ordinary shares amounting to 370,845,654 (2019: 260,743,005) in issue for the year ended 31 December 2020 is as follows:

	<i>Note</i>	2020	2019
Number of issued shares on 1 January	<i>14</i>	263,261,961	247,717,920
Adjustment for shares held for share award scheme		(2,048,685)	(2,338,685)
Effect of capitalisation issue on 2 September 2019	<i>14</i>	—	5,110,370
Effect of right issue on 2 March 2020		<u>109,632,378</u>	<u>10,253,400</u>
Weighted average number of ordinary shares		<u>370,845,654</u>	<u>260,743,005</u>

(b) Diluted

Diluted earnings/(losses) per share is calculated by dividing the profit attributable to ordinary equity holders of the parent by the adjusted weighted average number of ordinary shares outstanding assuming conversion of dilutive potential of the Award Shares. A calculation is done to determine the number of shares that could have been issued by exercising the right of the Award Shares under the Award Scheme.

	2020	2019
Profit/(loss) attributable to the ordinary equity holders of the parent (<i>HK\$'000</i>)	<u>31,710</u>	<u>(227,258)</u>
Weighted average number of ordinary shares in issue during the year	370,845,654	260,743,005
Adjustment for Award Shares	<u>567,685</u>	<u>—*</u>
Weighted average number of ordinary shares for diluted earnings per share calculation	<u>371,413,339</u>	<u>260,743,005</u>
Diluted earnings/(loss) per share (expressed in HK cents per share)	<u><u>8.54</u></u>	<u><u>(87.16)</u></u>

* Because the diluted loss per share amount is increased when taking the Award Shares into account, the Award Shares had an anti-dilutive effect on the basic loss per share the year ended 31 December 2019 and were ignored in the calculation of diluted loss per share during the year ended 31 December 2019.

The Group also had no potentially dilutive ordinary shares in issue for share options during the year ended 31 December 2020 as its exercise price is higher than the market price of the Group's shares as at the end of the reporting period.

11. TRADE AND BILLS RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	230,702	230,766
Bills receivable	17,590	17,234
	<u>248,292</u>	<u>248,000</u>
Less: Impairment of trade and bills receivables	<u>(26,764)</u>	<u>(17,266)</u>
	<u>221,528</u>	<u>230,734</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payments in advance is normally required. The credit period is generally one to six months, extending up to longer periods for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at 31 December 2020 and 2019, based on the invoice date and net of loss allowance, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	51,898	89,850
1 to 3 months	58,716	48,215
3 to 6 months	44,515	37,272
6 months to 1 year	41,117	31,764
Over 1 year	25,282	23,633
	<u>221,528</u>	<u>230,734</u>

12. TRADE AND BILLS PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	122,978	146,533
Bills payables	<u>36,366</u>	<u>32,452</u>
	<u>159,344</u>	<u>178,985</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	33,220	61,380
1 to 2 months	20,615	26,004
2 to 3 months	3,429	10,971
Over 3 months	<u>102,080</u>	<u>80,630</u>
	<u>159,344</u>	<u>178,985</u>

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Bank overdraft — secured (a)	1.85–5.25	On demand	15,591	3.75–4.25	On demand	9,592
Bank overdraft — unsecured (a)	—	—	—	4.75–5.25	On demand	7,988
Bank loans — secured	2.25–5.27	On demand	50,179	1.75–6.28	On demand	94,890
Bank loans and other borrowings — secured (a)	0.85–9.00	2021	124,787	0.85–6.17	2020	90,984
Bank loans — unsecured (a)	2.80–4.91	On demand	20,735	3.10–5.50	On demand	55,088
Bank loans — unsecured	4.50–6.18	2021	57,537	4.35–9.00	2020	53,740
Other borrowings — unsecured	8.50	2021	10,500	—	—	—
			<u>279,329</u>			<u>312,282</u>
Non-current						
Bank loans and other borrowings — secured	0.85–8.00	2022–2030	86,754	0.85–8.00	2021–2029	58,369
Bank loans — unsecured	4.50–6.18	2022–2027	60,902	4.50–6.18	2021–2027	85,346
Other borrowings — unsecured	7.00–10.00	2022–2023	31,336	—	—	—
			<u>178,992</u>			<u>143,715</u>
			<u>458,321</u>			<u>455,997</u>
				2020	2019	
				HK\$'000	HK\$'000	
Analysed into:						
Bank loans and other borrowings repayable:						
Within one year or on demand				279,329		312,282
In the second year				20,555		60,659
In the third to fifth years, inclusive				103,070		37,870
Beyond five years				55,367		45,186
				<u>458,321</u>		<u>455,997</u>

Interest-bearing bank and other borrowings are denominated in:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	107,872	163,861
RMB	338,837	281,732
JPY	4,480	3,272
US\$	7,132	7,132
	<u>458,321</u>	<u>455,997</u>

(a) HK Interpretation 5 “Presentation of Financial Statements — classification by the borrower of a term loan that contains a repayment on demand clause” requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time (“repayment on demand clause”) shall be classified in total by the borrower as current in the consolidated statement of financial position. Interest-bearing bank loans of the Group in the amount of HK\$86,505,000 (2019: HK\$167,558,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$13,548,000 (2019: HK\$27,150,000) that is repayable after one year from the end of 2020 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 31 December 2020, the Group’s bank loans amounting to approximately HK\$42,873,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since these bank loans would become mature within 12 months and included repayable on demand clause as mentioned above in 13(a) which have already been classified as current liabilities.

As at 31 December 2019, the Group’s bank loans amounting to approximately HK\$150,208,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since 1) bank loans amounting to HK\$27,150,000 included the repayment on demand clause and have already been classified as current liabilities as mentioned in note 13(a); and 2) bank loans amounting HK\$123,058,000 would become mature within 12 months and included repayable on demand clause as mentioned above in 13(a) which have already been classified as current liabilities.

(c) As at 31 December 2020, the Group’s facilities of bank and other borrowings amounted to HK\$519,809,000 (2019: HK\$536,168,000), of which HK\$458,321,000 (2019: HK\$455,997,000) had been utilised.

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

	Carrying value	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	142,575	182,374
Right-of-use assets	33,588	80,099
Financial assets at fair value through profit or loss	18,258	18,195
Inventories	41,717	39,113
Trade and bills receivables	34,124	62,727
Pledged bank deposits	35,056	25,115
	<u>305,318</u>	<u>407,623</u>

(e) As at 31 December 2020, the Group's bank loans of HK\$31,548,000 were borrowed under the SME Financing Guarantee Scheme (the "Scheme"), and the relevant balances were guaranteed by the Government of Hong Kong Special Administrative Region and personal guarantee by Mr. Chan Yu Ling, Abraham, a director of the Company, as required under the Scheme.

14. SHARE CAPITAL

Shares

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

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

	2019			
	Number of shares in issue	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	<u>247,717,920</u>	<u>191,981</u>	<u>206,811</u>	<u>398,792</u>
Effect of capitalisation issue on 2 September 2019 (<i>note a</i>)	15,544,041	12,047	17,953	30,000
Share issue expenses	—	—	(361)	(361)
Transfer of vested shares under Share Award Scheme	<u>—</u>	<u>—</u>	<u>81</u>	<u>81</u>
At 31 December 2019	<u><u>263,261,961</u></u>	<u><u>204,028</u></u>	<u><u>224,484</u></u>	<u><u>428,512</u></u>
	2020			
	Number of shares in issue	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	<u>263,261,961</u>	<u>204,028</u>	<u>224,484</u>	<u>428,512</u>
Effect of right issue on 2 March 2020 (<i>note b</i>)	131,630,980	102,014	3,291	105,305
Share issue expenses	—	—	(7,257)	(7,257)
Transfer of vested shares under Share Award Scheme	<u>—</u>	<u>—</u>	<u>140</u>	<u>140</u>
At 31 December 2020	<u><u>394,892,941</u></u>	<u><u>306,042</u></u>	<u><u>220,658</u></u>	<u><u>526,700</u></u>

- (a) On 2 September 2019, 15,544,041 new shares of US\$0.1 (HK\$0.775) each were issued at a price of HK\$1.93 per share to Mr. Abraham Chan for capitalising the corresponding Group's loans due to him amounting to HK\$30,000,000 (the "**Capitalisation Issue**"). The proceeds of HK\$12,047,000 representing the par value were credited to the Company's share capital and the remaining proceeds of HK\$17,953,000 (before deduction of share issue expenses) were credited to the share premium account. Further details about the Capitalisation Issue are set out in the announcement dated 12 June 2019 and circular dated 24 July 2019 issued by the Company.
- (b) On 2 March 2020 (the "**Rights Issue Date**"), 131,630,980 new right shares of US\$0.1 (HK\$0.775) each were allotted and issued at a price of HK\$0.8 per share on the basis of one new rights share for every two existing shares held on 6 February 2020 (the "**Rights Issue**"). The proceeds of HK\$102,014,000 representing the par value were credited to the Company's share capital and the remaining proceeds of HK\$3,291,000 (before deduction of share issue expenses) were credited to the share premium account. Further details of the Rights Issue are set out in the prospectus dated 7 February 2020 and announcement dated 28 February 2020 issued by the Company.

15. CONTINGENT LIABILITIES

For the year ended 31 December 2019, an action was brought against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedling products) (the “**Agreements**”). Since the plaintiff of the action had not yet provided the evidence regarding the aforesaid claims, the Group has made provision of HK\$4.0 million for the year ended 31 December 2019, for the probability-weighted outcomes might arise from the action (including related legal and other costs) according to the advice from the Group’s legal counsel and available evidence on hand in 2019.

In mid-January 2021, the Company received the judgement made by the PRC Court against the subsidiary of the Group and the Group therefore accrued additional HK\$11.7 million provision for such litigations cases according to the first-instance judgement of the PRC Court for the years ended 31 December 2020. The Group has filed appeal against the first-instance judgment of the court and the appeal is still in progress up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

2020 was a particularly difficult year for most industries due to the global outbreak of COVID-19 pandemic. Despite the adverse economic environment, PuraPharm managed to report a moderate profit under our stringent budget controls and more efficient management structure initiated a couple of years ago.

The Group's mission for 2021 is clear. The successful structural reform of our business conducted in the past years has paved the way for a more high-tech infused and customer centric organization with a high passion in not just Chinese medicine alone, but in the larger botanical medicine arena.

The opening of the CCMG market

The China market will be the growth engine of the Group in the future. However, the Chinese National Medical Products Administration (“NMPA”) has recently announced the ending of the provisional testing manufacturing sites for concentrated Chinese medicine granules (“CCMG”). To the Group, this signifies that the China CCMG market will be progressively opened once the full CCMG national standards are published. It is expected that competition will be fierce as more players will enter the market if they can fulfill the requirements of the National standards. The Group is fully aware of the changing competitive landscape and is prepared to take on the challenges this may bring. Having been one of the five companies licensed by the NMPA to manufacture and sell CCMG nationally in China for over fifteen years, the Group sees the opening of the market as an opportunity rather than simply a threat. We envisage that the deregulation of the CCMG market will unleash the demand for CCMG products, thus growing the overall market. We once again intend to be one of the first movers in the industry to take advantage of this expansion in the market because of our well-established position in terms of market knowledge and technological advancement. Throughout the years, we have established our own Chinese medicine clinics in Hong Kong enabling us to go directly in serving our customers. We have also established strong ties with top-tiers universities and academic institutions to improve the efficacy of our products through continuous research and development. We have accumulated a strong clinical database with advanced artificial intelligence and software technologies, which helps us to streamline our products and our services to better serve our customers. We have vertically integrated with our supply chain to include our own seeds and seedling manufacturing facility with plantations in the province of Guizhou to enable us to offer true “farm to bottle” products. We will continue to work with prestige research institutions both locally and internationally to improve the quality of our products. We intend to elevate the positioning of our products and to differentiate ourselves from other competitors in order to be the most premium brand in the industry.

Healthcare Products

With the acquisition of KAN Herbs in the USA and SODX in Japan, we have well positioned ourselves as a true international player in the health products arena. The COVID-19 pandemic has aroused the health consciousness of the world population, which could create a substantial growth in the over-the-counter (OTC) health supplement market. With our acquired production capacity and distribution network, we plan to introduce a series of immune boosting supplements targeting consumers who want to improve their bodily immunity and other functions against COVID-19 pandemic. Through internet-based campaigns, we envisage integrating e-commerce channels with a multi-echelon supply chain system to promote our products. Some of the products produced in our Japan factory could be imported back into China and Hong Kong through various means of on-line marketing including cross-border selling channels to expedite the go-to-market process.

Clinic Operation

Ever since the establishment of the first Nong's Clinic 20 years ago, PuraPharm has established itself as the leading Chinese medicine clinic chain in Hong Kong. We believe there is now the opportunity to extend this business into the Greater Bay Area (“GBA”). With a similar young and affluent demographics in the GBA when comparing to Hong Kong, Nong's clinic concept is expected to be well received there. We believe the potential is huge, and we are planning to introduce a prototype clinic in Shenzhen to test and refine our approach to rolling out a chain of clinics in due course.

Seeds and Seedling Propagation & Plantation

The Guizhou provincial Government has been extremely supportive in providing incentive to our seeds and seedling business in Guizhou. In that respect, we will continue to build up our capacity with the corresponding sales and marketing efforts. The vertical integration with our CCMG production facilities in Guangxi, Nanning has proven to be a cost-efficient initiative. We will continue to transfer the herb pre-processing work and warehousing from Guangxi to Guizhou, where we have higher efficiency and lower costs. We will also collaborate deeper with the local government to grow indigenous herbs for the mutual benefit of securing a steady supply of high-quality herbs, which in turn will also help the government to alleviate local poverty.

Strategic Cooperation

We are constantly seeking strategic partners with our business development team to build long-term reciprocal collaborations to achieve positive synergistic results. The Group understands the importance of strategic partnerships in China and will continue to look for opportunities which will enhance our resources and the profitability of our different business units to the Group. We believe our robust business foundation in China will continue to be fruitful and bring more values for our investors and shareholders.

FINANCIAL REVIEW

Sales performance by segment

	Year ended 31 December					
	2020 HK\$000	% of total	2019 HK\$000	% of total	Change HK\$000	%
Revenue						
— China CCMG	278,478	46.3%	285,220	41.0%	(6,742)	-2.4%
— Hong Kong CCMG	146,433	24.3%	161,573	23.2%	(15,140)	-9.4%
— Chinese healthcare products	85,752	14.2%	90,429	13.0%	(4,677)	-5.2%
— Nong's® (農本方®)						
Chinese medicine clinics	49,924	8.3%	96,413	13.9%	(46,489)	-48.2%
— Plantation	41,228	6.9%	62,244	8.9%	(21,016)	-33.8%
	<u>601,815</u>	<u>100.0%</u>	<u>695,879</u>	<u>100.0%</u>	<u>(94,064)</u>	<u>-13.5%</u>

China CCMG

For the year ended 31 December 2020, the sales of CCMG in China was HK\$278.4 million, representing a decrease of HK\$6.7 million or 2.4% compared to HK\$285.2 million in last year. Due to the outbreak of the COVID-19 pandemic since the beginning of 2020, the PRC Government has adopted a series of stringent measures to prevent and control the COVID-19, including travel restrictions, regional lockdowns, and temporary business shutdowns of certain Chinese medicine clinics and hospitals. As a result, the China CCMG sales business was negatively affected, especially in first quarter of 2020. But the CCMG sales in China was gradually improved in second half of 2020 due to the control of the COVID-19 pandemic in China. Comparing to the first half of 2020, the sales of China CCMG increased by 29.2% in second half of 2020.

Hong Kong CCMG

The Group continued to maintain its leading market position in Hong Kong and sell its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the year ended 31 December 2020, the direct sales of CCMG products in Hong Kong was HK\$146.4 million, representing a decrease of HK\$15.1 million or 9.4% compared with last year. The outbreak of COVID-19 pandemic affected the overall business environment and consumers' sentiment in Hong Kong, certain Chinese medicine hospitals and clinics are not in full operation and this led to a decrease in demand for Chinese medicine from the Group.

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

During the year ended 31 December 2020, the sales of CCMG products and provision of Chinese medical services from the Group's Nong's® (農本方®) Chinese medicine clinics was HK\$49.9 million in aggregate, representing a decrease of HK\$46.5 million or 48.2% compared to HK\$96.4 million in last year. The decrease in revenue was mainly attributable to the downsize of the clinic network in Hong Kong by closing the loss-making clinics. The number of clinics in operation in Hong Kong decreased from 57 clinics as at 31 December 2019 to 30 clinics as at 31 December 2020.

Although the revenue of Nong's clinics segment decreased by 48.2%, the loss attributed by Nong's clinics segment has substantially decreased during the year ended 31 December 2020 as the loss-making clinics were closed and the relevant assets of those clinics were fully impaired in last year. However, the consumer sentiment and the demand for Chinese medicine services were negatively affected by the COVID-19 pandemic. As a result, the Group's clinic business segment still experienced a loss during the year ended 31 December 2020.

Instead of expanding the clinic network in Hong Kong, the Group will focus on improving the performance of the existing clinic portfolio and proactively negotiate with the landlords on rental reduction in order to achieve profitability in this segment as early as possible.

Chinese Healthcare Products

Sales by regions

	Year ended 31 December					
	2020		2019		Change	
	Revenue	% of total	Revenue	% of total	Change	
	HK\$000		HK\$000		HK\$000	%
U.S.A.	38,429	44.8%	36,092	39.9%	2,337	6.5%
Japan	10,797	12.6%	10,447	11.6%	350	3.4%
Hong Kong	36,526	42.6%	43,890	48.5%	(7,364)	-16.8%
	<u>85,752</u>	<u>100%</u>	<u>90,429</u>	<u>100.0%</u>	<u>(4,677)</u>	<u>-5.2%</u>

During the year ended 31 December 2020, revenue from sales of Chinese healthcare products in U.S.A., Japan and Hong Kong markets was HK\$85.8 million in aggregate, representing a decrease of HK\$4.7 million or 5.2% as compared to HK\$90.4 million in last year.

Among the Group’s Chinese healthcare products segment, the sales in overseas market recorded an increase due to the increase in consumer demand. The sales drop in Hong Kong market is due to the outbreak of COVID-19 pandemic, causing difficult retail market and sluggish consumption sentiment, which led to a decline in customer flow in general in pharmacies and key chain stores.

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

Plantation

For the 31 December 2020, the upstream plantation segment contributed HK\$41.2 million to the Group’s overall revenue, less than last year of HK\$62.2 million by HK\$21.0 million or 33.8%. 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 decrease in Chinese raw herbs trading business along with the keen market competition.

During the year, the Group has expanded the planting bases by collaborating with the local Government and farmers for several plantation projects. Such planting bases were recorded as biological assets of the Group and this led to a significant fair value gain recorded as “Other income and gains” for the year ended 31 December 2020.

Gross Profit

	Year ended 31 December		Change
	2020	2019	
	<i>HK\$000</i>	<i>HK\$000</i>	%
Revenue	601,815	695,879	-13.5%
Cost of sales	231,866	297,040	-21.9%
Gross Profit	<u>369,949</u>	<u>398,839</u>	<u>-7.2%</u>
Gross profit margin	<u>61.5%</u>	<u>57.3%</u>	

The Group's gross profit margin for the year ended 31 December 2020 was 61.5%, representing an increase of 4.2%, compared to 57.3% in last year. The average selling price of CCMG in China market has slightly increased and other business segments remained stable during the year ended 31 December 2020. In addition to the price increment in China market, the improvement in gross profit margin was attributable to the decrease in average unit cost of CCMG products resulted from the cost control on production.

Other income and gains

The Group's other income and gains mainly comprised of government grants, fair value gain on biological assets, net foreign exchange gain, gain from sale of equipment and accessories, financial assets at fair value through profit or loss and interest income. For the year ended 31 December 2020, the Group's other income and gain was HK\$94.7 million, representing an increase of HK\$77.2 million compared to HK\$17.5 million in last year.

The increase was mainly due to significant non-recurring government grants of HK\$65.8 million recorded by the for the year ended 31 December 2020, representing an increase of HK\$53.8 million compared to last year of HK\$12.0 million. The Government grants were mainly consisted of the sum received from the relevant authorities of the PRC to reward the Group's industrial investment in Guizhou province, finance costs subsidies, tax refund and grants for certain research and development projects and the subsidies from Hong Kong Government to support enterprise against the negative impact brought by the COVID-19 pandemic impact.

The Group also recorded HK\$20.8 million net fair value gain on biological assets resulted from the additional planting bases of the Group in Guizhou provinces, as compared to a net fair value loss on biological assets of HK\$19.6 million in last year. The additional planting bases during the year was mainly collaborating plantation projects with local Government.

Selling and distribution expenses

The Group's selling and distribution expenses mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses, and sales and marketing departmental expenses. For the year ended 31 December 2020, the Group's selling and distribution expenses was HK\$210.5 million, representing a decrease of HK\$15.7 million or 6.9% compared to HK\$226.2 million in last year. The decrease was mainly attributable to (i) decrease in marketing activities due to the impact of COVID-19 pandemic and (ii) decrease in distribution cost and distributors commission associated with the sales drop.

For the year ended 31 December 2020, selling and distribution expenses as a percentage to revenue increased from 32.5% for last year to 35.0% for the year ended 31 December 2020. Despite the sales dropped for the year ended 31 December 2020, the Group maintained a reasonable marketing expenses to maintain the brand competitiveness and the market awareness of the Group's products.

Administrative expenses

	Year ended 31 December		Change	
	2020 <i>HK\$000</i>	2019 <i>HK\$000</i>	<i>HK\$'000</i>	%
Clinics operating expenses	32,802	81,375	(48,573)	-59.7%
Research and development costs	22,038	34,733	(12,695)	-36.5%
General administrative expenses	98,617	112,374	(13,757)	-12.2%
Total administrative expenses	<u>153,457</u>	<u>228,482</u>	<u>(75,025)</u>	<u>-32.8%</u>

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

For the year ended 31 December 2020, the Group's operating expenses for clinics segment was HK\$32.8 million, representing a decrease of HK\$48.6 million or 59.7% compared to HK\$81.4 million in last year. The decrease was mainly attributable to the downsizing of clinic network in Hong Kong. The number of clinics in operation in Hong Kong decreased from 57 clinics as at 31 December 2019 to 30 clinics as at 31 December 2020.

The research and development costs for the year ended 31 December 2020 decreased by HK\$12.7 million or 36.5%, mainly due to the deferment of certain development projects resulted from the impact of COVID-19 pandemic.

The Group's general administrative expenses for the year ended 31 December 2020 decreased by HK\$13.8 million or 12.2%, to HK\$98.6 million due to the control on the operating costs.

Other expenses

The Group's other expenses mainly comprised of provision for a litigation claim, voluntary charity donation, and loss on disposal of fixed assets. The decrease in other expenses was mainly due to (i) a net fair value loss on biological assets of HK\$19.6 million recorded in last year, while it was a net fair value gain on biological assets of HK\$20.8 million for the year ended 31 December 2020; and (ii) a net foreign exchange loss recorded in last year, while it was a net foreign exchange gain for the year ended 31 December 2020.

Finance costs

For the year ended 31 December 2020, the Group's finance costs amounted to HK\$26.8 million, slightly decreased by HK\$0.4 million or 1.4% as compared to HK\$27.2 million in last year. Despite the decrease in average utilisation of bank and other borrowings during the year ended 31 December 2020, the average interest cost was increased.

Income tax expense

During the year ended 31 December 2020, the Group's income tax expenses decreased from HK\$11.1 million in last year to HK\$8.5 million for the year ended 31 December 2020. The decrease in income tax expense was mainly due to the write-off of deferred tax assets in respect of the tax losses arising from the Group's clinic and Chinese healthcare products business in Hong Kong in last year, no such write-off for the year ended 31 December 2020.

Profit for the year

The Group recorded a net profit of HK\$31.7 million for the year ended 31 December 2020, as compared with the net loss of HK\$227.3 million in last year. The increase in net profit was mainly attributable to the following factors:

- (i) no significant impairment loss recognised for the year ended 31 December 2020 as compared to last year; and
- (ii) receipt of significant non-recurring Government grants of HK\$65.8 million recorded by the Group as other income and gains for the year ended 31 December 2020, representing an increase of HK\$53.8 million compared to last year of HK\$12.0 million. The Government grants were mainly consisted of the sum received from the relevant authorities of the PRC to reward the Group's industrial investment in Guizhou province, finance costs subsidies, tax refund and grants for certain research and development projects.

If excluded such non-recurring Government grant income, the Group recorded an operating loss of HK\$34.1 million for the year ended 31 December 2020, but such operating loss was materially less than last year, due to stringent control on the operating costs undertaken during the year ended 31 December 2020. And majority of such operating loss was resulted from first half of 2020, the revenue and profitability improved in the second half of 2020 due to the control of the COVID-19 pandemic especially in China market.

	2020 2H	2020 1H	Change	
	HK\$'000	HK\$'000	HK\$'000	%
Revenue	321,383	280,432	40,951	14.6%
Net profit	20,273	11,437	8,836	77.3%
Government grants	24,976	40,823	(15,847)	-38.8%
Adjusted operating loss by excluding Government grants	(4,703)	(29,386)	24,683	-84.0%

LIQUIDITY AND FINANCIAL RESOURCES

Cash position and interest-bearing bank and other borrowings

The Group liquidity and financial resources position as follow:

	Year ended 31 December		Change	
	2020	2019	HK\$'000	%
	HK\$'000	HK\$'000		
Net current assets (liabilities)	15,791	(41,378)	57,169	N/A
Cash and cash equivalent	91,401	68,009	23,392	34%
Interest-bearing bank and other borrowings	(458,321)	(455,997)	(2,324)	1%
Current portion	(279,329)	(312,282)	32,953	-11%
Non-current portion	(178,992)	(143,715)	(35,277)	25%
Loan from a director	—	(15,000)	15,000	-100%
Unused bank facilities	61,488	80,171	(18,683)	-23%

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

Cash flow and liquidity ratio analysis

	Year ended 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Net cash from operating activities	119,854	131,200
Net cash used in investing activities	(92,110)	(91,461)
Net cash used in financing activities	(3,613)	(79,246)
Current ratio	1.0	0.9
Gearing ratio	0.9	1.3

For the year ended 31 December 2020, the Group's net cash from operating activities was HK\$119.9 million, which was slightly lower than last year by HK\$11.3 million. The decrease in operating cash inflow was mainly due to the impact of COVID-19 which resulted in a decrease trade and bills receivables collection from China CCMG sales, and increase in cash outflow for settlement of trade and bills payables for the raw material purchase for production.

For the year ended 31 December 2020, the Group's net cash used in investing activities was HK\$92.1 million, which was mainly used in (i) the construction of new warehouses in Nanning to replace the existing outsourcing warehouse for the Group's inventories storage in Nanning. Three new warehouses of 25,079 square meter floor areas in aggregate were completed and in-use in December 2020; (ii) the construction and equipment for a research and development building located in Nanning, to further strengthen the Group's research and development abilities; and (iii) acquisition of a Chinese medicine management software, namely the Traditional Chinese Medicine Advisor 3.0 ("TCMA 3.0"), to further enhance the Group's clinic operation management.

For the year ended 31 December 2020, the Group' net cash used in financing activities was HK\$3.6 million, significant decreased by HK\$75.6 million compared to last year due to the net proceed of Rights Issue of HK\$98.0 million received during the year ended 31 December 2020.

The Group's current ratio increased from 0.9 as at 31 December 2019 to 1.0 as at 31 December 2020, such improvement was mainly attributable to (i) improvement of cash and cash equivalent position resulted from Rights Issue and increase in Government grants received; and (ii) decrease in current portion of interest-bearing bank and other borrowing as the Group has renewed certain short-term financing by long-term project loans.

The Group's gearing ratio (calculated by dividing total interest-bearing bank and other borrowings, and a loan from a director by total equity) improved from 1.3 as at 31 December 2019 to 0.9 as at 31 December 2020. Such improvement was mainly attributable to (i) strengthen of the Group's equity by completion of a Right Issue and increase in net profit for the year ended 31 December 2020; and (ii) fully settled of a loan to a director.

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

EXCHANGE RISK

The Group conducts business primarily in Hong Kong and China with most of its transactions denominated and settled in Hong Kong dollars and Renminbi. Currently, the Group has not entered into any foreign exchange contracts or any hedging instrument 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 31 December 2020, the Group had a total of 711 employees (31 December 2019: 696 employees). During the year ended 31 December 2020, total staff costs excluding Directors' remuneration was HK\$87.8 million (31 December 2019: HK\$81.1 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:

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Property, plant and equipment	142,575	182,374
Right-of-use-assets	33,588	80,099
Financial assets at fair value through profit or loss	18,258	18,195
Inventories	41,717	39,113
Trade and bills receivables	34,124	62,727
Pledged bank deposits	35,056	25,115
	<u>305,318</u>	<u>407,623</u>

CAPITAL COMMITMENT

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Land and Buildings	22,375	26,579
Plant and machinery	1,212	8,142
	<u>23,587</u>	<u>34,721</u>

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the business plan disclosed in this announcement, the Group did not have any future plans for material investments or capital assets as at 31 December 2020.

CONTINGENT LIABILITIES

For the year ended 31 December 2019, an action was brought in the PRC against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedling products) (the “**Agreements**”). Since the plaintiff of the action had not yet provided the evidence regarding the aforesaid claims, the Group has made provision of HK\$4.0 million for the year ended 31 December 2019, for the probability-weighted outcomes might arise from the action (including related legal and other costs) according to the advice from the Group’s legal counsel and available evidence on hand in 2019.

In mid-January 2021, the Company received the judgement made by the PRC Court against the subsidiary of the Group and the Group therefore accrued additional HK\$11.7 million provision for such litigation cases according to the first-instance judgement of the PRC Court for the year ended 31 December 2020. The Group has filed appeal against the first-instance judgment of the court and the appeal is still in progress up to the date of this announcement.

THE RIGHTS ISSUE

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

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

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

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK\$288.4 million (the “**Net Proceeds**”). As at 31 December 2020, the Group had utilised approximately HK\$277.7 million of the Net Proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	Total approximate amount of Net Proceeds (in HK\$ million)	Approximate percentage of Net Proceeds	Approximate amount utilised as at 31 December 2020 (in HK\$ million)	Approximate amount utilized during the year (in HK\$ million)	Approximate amount unutilised as at 31 December 2020 (in HK\$ million)	Expected timeline for intended use
To expand manufacturing facilities and enhance existing production lines	86.5	30%	86.5	—	—	—
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	72.1	—	—	—
To expand distribution network into new target cities in the PRC	57.7	20%	57.7	—	—	—
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	32.6	2.1	10.7	by December 2021
Additional working capital of the Group	28.8	10%	28.8	—	—	—
	<u>288.4</u>	<u>100%</u>	<u>277.7</u>	<u>2.1</u>	<u>10.7</u>	

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

Among the remaining unutilised portion of the net proceeds, HK\$7.2 million is allocated to the development of pharmaceutical products for treating irritable bowel syndrome, known as 仁術腸樂顆粒. On 8 October 2020, the Group has entered into a Asset Sale Agreement with BAGI Research Limited, a company indirectly and wholly-owned by Mr. Chan Yu Ling, Abraham, an executive director and controlling shareholder of the Company, to sell the relevant assets of such product development (the “**Asset Disposal**”). Upon completion of the Asset Disposal, the Group will re-allocate HK\$7.2 million of such unused portion of the proceeds, as working capital of the Group’s other research and development projects. For further information in relation to the Asset Disposal, please refer to the announcement of the Company dated 8 October 2020.

NET PROCEEDS FROM THE RIGHTS ISSUE

The net proceeds raised from the Rights Issue after deducting the relevant expenses, was approximately HK\$98 million. The table below sets out the proposed application and the actual usage of the net proceeds from the Rights Issue as at 31 December 2020 as follows:

Use	Approximate amount of net proceeds (in HK\$ million)	Approximate percentage of net proceeds	Approximate amount utilized during the year ended 31 December 2020 (in HK\$ million)	Approximate amount unutilized (in HK\$ million)
Repayment of bank loan	41.0	41.8%	41.0	—
Marketing expenses of the Group China				
CCMG business	20.0	20.4%	20.0	—
Raw herbs procurement	20.0	20.4%	20.0	—
General working capital	17.0	17.4%	17.0	—
	<u>98.0</u>	<u>100.0%</u>	<u>98.0</u>	<u>—</u>

As at 31 December 2020, the net proceeds from the Rights Issue have been fully utilised according to the proposed application.

SHARE OPTION SCHEME

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

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

On 9 May 2019, 6,376,000 options were granted to four Directors and certain employees of the Company, entitling them to subscribe for a total of 6,376,000 shares at the exercise price of HK\$2.4 per share.

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

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

Grantees	Grant date	Exercise price	Vesting date	Number of Shares issuable		Exercised during the year	Canceled/lapsed during the year	Effect of Right Issue (note)	As at 31 December 2020
				As at 1 January 2020	under Options granted during the year				
Directors	9 May 2019	HK\$2.3 (Note)	10 May 2020	2,763,000	—	—	—	116,006	2,879,006
			10 May 2021	2,763,000	—	—	—	116,006	2,879,006
				<u>5,526,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>232,012</u>	<u>5,758,012</u>
	24 July 2020	HK\$0.8	23 July 2021	—	7,222,000	—	—	—	7,222,000
			23 July 2022	—	6,702,000	—	—	—	6,702,000
				<u>—</u>	<u>13,924,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Sub-total for Directors				<u>5,526,000</u>	<u>13,924,000</u>	<u>—</u>	<u>—</u>	<u>232,012</u>	<u>19,682,012</u>
Employees	9 May 2019	HK\$2.3 (Note)	10 May 2020	212,500	—	—	(42,500)	8,922	178,922
			10 May 2021	212,500	—	—	(42,500)	8,922	178,922
			10 May 2022	212,500	—	—	(42,500)	8,922	178,922
			10 May 2023	212,500	—	—	(42,500)	8,922	178,922
				<u>850,000</u>	<u>—</u>	<u>—</u>	<u>(170,000)</u>	<u>35,688</u>	<u>715,688</u>
	24 July 2020	HK\$0.8	23 July 2021	—	466,667	—	—	—	466,667
			23 July 2022	—	466,667	—	—	—	466,667
			23 July 2023	—	466,666	—	—	—	466,666
				<u>—</u>	<u>1,400,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,400,000</u>
Sub-total for Employees				<u>850,000</u>	<u>1,400,000</u>	<u>—</u>	<u>(170,000)</u>	<u>35,688</u>	<u>2,115,688</u>
Total				<u>6,376,000</u>	<u>15,324,000</u>	<u>—</u>	<u>(170,000)</u>	<u>267,700</u>	<u>21,797,700</u>

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

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the “**Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). During the year ended 31 December 2020 (the “**Review Period**”), 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. Chan Yu Ling, Abraham’s in-depth knowledge and experience in Chinese medicine and healthcare products and his familiarity with the operations of the Group, the Company considers that it is not preferable to find an alternative candidate to replace Mr. Chan Yu Ling, Abraham’s and serve in either of the positions at this stage. As such, the role of the chairman and chief executive officer of the Company are not being separated pursuant to the requirement under provision A.2.1 of the Code. Further, the Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team.

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

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the Code. The Audit Committee comprises three independent non-executive members, and the majority of whom are independent non-executive Directors:

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

Dr. Chan Kin Keung, Eugene

Dr. Leung Lim Kin, Simon

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

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

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management. The Audit Committee considers that the annual financial results for the year ended 31 December 2020 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's results for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

MODEL CODE FOR SECURITIES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the required standard of dealing as set out in the Model Code during the year ended 31 December 2020 and the Board was of the view that the model code has been fully complied with during the year ended 31 December 2020.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

Other than disclosed above, the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities throughout the year ended 31 December 2020.

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

The Board is not aware any significant event affecting the Company or any of its subsidiaries after 31 December 2020 and up to the date of this announcement.

DIVIDEND

The Board resolved not to recommend the payment of final dividend for the year ended 31 December 2020 to the shareholders of the Company.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 28 May 2021 and the notice of AGM will be published and despatched in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the shareholders eligibility to attend the AGM, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both dates inclusive, during which no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on 28 May 2021 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 pm on Monday, 24 May 2021.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com. The annual report of the Company for the year ended 31 December 2020 will also be published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com and will be dispatched to the shareholders of the Company according to the Listing Rules.

FORWARD LOOKING STATEMENTS

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

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

Hong Kong, 25 March 2021

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