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PuraPharm

PURAPHARM CORPORATION LIMITED

培力農本方有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1498)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

	FINANCIAL HIGHLIGHT					
	Six months ended 30 June					
	2021		2020		Change	
	Revenue	% of	Revenue	% of	Change	
	HK\$'000	total	HK\$'000	total	HK\$'000	%
China CCMG	156,880	51.8%	121,498	43.3%	35,382	29.1
Hong Kong CCMG	72,697	24.0%	68,311	24.4%	4,386	6.4
Chinese healthcare products	39,358	13.0%	45,097	16.1%	(5,739)	(12.7)
Nong's® (農本方®)						
Chinese medicine clinics	23,897	7.9%	23,989	8.6%	(92)	(0.4)
Plantation	9,925	3.3%	21,537	7.6%	(11,612)	(53.9)
Total	<u>302,757</u>	<u>100.0%</u>	<u>280,432</u>	<u>100.0%</u>	22,325	8.0
Profit for the period	11,974		11,437		537	4.7

The board (the “**Board**”) of directors (the “**Directors**”) of PuraPharm Corporation Limited (the “**Company**”) is pleased to present the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021 (the “**Reporting Period**”) with the corresponding comparative figures of the six months ended 30 June 2020 and certain comparative audited figures as at 31 December 2020 as follows.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	5	302,757	280,432
Cost of sales		<u>(106,353)</u>	<u>(115,598)</u>
Gross profit		196,404	164,834
Other income and gains	5	14,763	45,452
Selling and distribution expenses		(92,444)	(96,778)
Administrative expenses		(82,286)	(75,677)
Impairment of financial assets, net		(3,221)	(3,734)
Other expenses		(2,338)	(6,544)
Finance costs		<u>(13,492)</u>	<u>(11,165)</u>
PROFIT BEFORE TAX	6	17,386	16,388
Income tax expense	7	<u>(5,412)</u>	<u>(4,951)</u>
PROFIT FOR THE PERIOD		<u>11,974</u>	<u>11,437</u>
Attributable to owners of the parent		<u>11,974</u>	<u>11,437</u>
EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT			
(expressed in HK cents per share)			
Basic			
— For profit for the period	9	<u>3.04</u>	<u>3.28</u>
Diluted			
— For profit for the period	9	<u>3.04</u>	<u>3.28</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>11,974</u>	<u>11,437</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	<u>839</u>	<u>(6,849)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>839</u>	<u>(6,849)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>12,813</u>	<u>4,588</u>
Attributable to owners of the parent	<u>12,813</u>	<u>4,588</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2021	31 December 2020
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		333,450	322,839
Investment properties		7,639	7,568
Right-of-use assets		126,130	136,513
Goodwill	<i>10</i>	88,339	88,339
Other intangible assets		41,972	42,920
Financial assets at fair value through profit or loss		18,258	18,258
Biological assets		107,712	95,084
Prepayments for non-current assets	<i>12</i>	46,350	44,087
Deferred tax assets		11,075	11,291
		<hr/>	<hr/>
Total non-current assets		780,925	766,899
CURRENT ASSETS			
Inventories		167,348	180,124
Biological assets		6,014	10,026
Trade and bills receivables	<i>11</i>	237,707	221,528
Prepayments, deposits and other receivables	<i>12</i>	68,289	68,637
Tax recoverable		—	906
Pledged bank deposits		27,060	35,056
Cash and cash equivalents		73,602	91,401
		<hr/>	<hr/>
Total current assets		580,020	607,678
CURRENT LIABILITIES			
Trade and bills payables	<i>13</i>	147,167	159,344
Other payables and accruals		97,306	110,318
Interest-bearing bank and other borrowings	<i>14</i>	303,076	279,329
Lease liabilities		19,023	31,402
Amount due to a related company		—	5,900
Tax payable		4,036	2,845
Government grants		2,953	2,749
		<hr/>	<hr/>
Total current liabilities		573,561	591,887
NET CURRENT ASSETS			
		<hr/> 6,459	<hr/> 15,791
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/> 787,384	<hr/> 782,690

		30 June 2021	31 December 2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>787,384</u>	<u>782,690</u>
NON-CURRENT LIABILITIES			
Other payable		51,035	50,564
Interest-bearing bank and other borrowings	<i>14</i>	172,137	178,992
Lease liabilities		31,385	34,388
Government grants		2,403	3,853
Deferred tax liabilities		3,429	3,235
		<u>260,389</u>	<u>271,032</u>
Total non-current liabilities		<u>260,389</u>	<u>271,032</u>
Net assets		<u>526,995</u>	<u>511,658</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>15</i>	306,042	306,042
Shares held for share award scheme	<i>16(b)</i>	(3,221)	(6,258)
Reserves		224,174	211,874
		<u>526,995</u>	<u>511,658</u>
Total equity		<u>526,995</u>	<u>511,658</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Notes</i>	Six months ended 30 June	
		2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		17,386	16,388
Adjustments for:			
Finance costs		13,492	11,165
Foreign exchange loss, net	6	1,580	1,002
Fair value gain on biological assets, net	6	(4,438)	(2,579)
Loss on disposal of property, plant and equipment	6	9	1,822
Gain on disposal of right-of-use assets	5	—	(699)
Fair value gain on financial assets at fair value through profit or loss	5	—	(56)
Share option expense	16(a)	2,355	2,303
Equity-settled share award expense	16(b)	169	354
Depreciation of property, plant and equipment	6	14,652	14,247
Depreciation of right-of-use assets	6	11,131	8,936
Amortisation of other intangible assets	6	2,467	1,809
Impairment of property, plant and equipment	6	183	225
Impairment of trade and bills receivables	6	3,221	3,734
Write-down of inventories to net realisable value	6	2,945	2,435
Bank interest income	5	(64)	(496)
		65,088	60,590
Decrease in inventories		19,599	25,928
Increase in biological assets		(11,681)	(11,674)
(Increase)/decrease in trade and bills receivables		(17,530)	2,233
(Increase)/decrease in prepayments, deposits and other receivables		811	(15,794)
Increase/(decrease) in trade and bills payables		(13,622)	2,556
Decrease in government grants		(1,304)	(501)
Increase/(decrease) in other payables and accruals		(13,794)	4,607

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cash generated from operations	27,567	67,945
Interest received	64	496
Interest element of finance lease rental payments	—	—
Hong Kong income tax paid	(3,392)	(2,640)
Overseas profits tax paid	(271)	(467)
PRC corporate income tax refund (paid)	832	(1,567)
	<hr/>	<hr/>
Net cash flows generated from operating activities	24,800	63,767
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(26,319)	(22,854)
Proceeds from disposal of items of property, plant and equipment and other intangible assets	—	76
Addition to intangible assets	(7,572)	(537)
Decrease in pledged deposits	7,996	7,459
	<hr/>	<hr/>
Net cash flows used in investing activities	(25,895)	(15,856)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	141,388	251,297
Repayment of bank loans	(124,284)	(320,437)
Repayments of loans to a director	—	(15,000)
Proceeds from issue of shares	—	105,305
Share issue expense	—	(7,257)
Interest paid	(13,492)	(13,443)
Principal portion of lease payment	(16,698)	(16,548)
	<hr/>	<hr/>
Net cash flows used in financing activities	(13,086)	(16,083)
	<hr/>	<hr/>

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,181)	31,828
Cash and cash equivalents at beginning of period	75,809	50,429
Effect of foreign exchange rate changes, net	3,340	5,970
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>64,968</u>	<u>88,227</u>
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	73,602	98,798
Bank overdrafts	(8,634)	(10,571)
	<hr/>	<hr/>
	<u>64,968</u>	<u>88,227</u>
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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 2021 (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 2021 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 2020.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period’s financial information.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform – Phase 2

*Covid-19-Related Rent Concessions beyond 30 June
2021 (early adopted)*

The application of these amended and revised HKFRSs in the Reporting Period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

- (a) the China CCMG segment mainly engages in the production and sale of CCMG products in China;
- (b) the Hong Kong CCMG segment mainly engages in the sale of CCMG products excluding the sales through self-operated clinics in Hong Kong;
- (c) the Chinese healthcare products segment mainly engages in the production and sale of Chinese healthcare products in Hong Kong, the USA and Japan;
- (d) the clinics segment mainly engages in the provision of Chinese medical diagnostic services and sale of CCMG products through self-operated clinics; and
- (e) the plantation segment mainly engages in the plantation and trading of raw Chinese herbs, and manufacture and sale of TCM decoction pieces.

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

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

The following tables present revenue, profit and other segment information for the Group's operating segments for the six months ended 30 June 2021 and 2020.

Six months ended 30 June 2021 (Unaudited)

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue:							
Revenue from external customers	156,880	72,697	39,358	23,897	9,925	—	302,757
Intersegment sales	44,617	1,838	867	—	1,164	(48,486)	—
	<u>201,497</u>	<u>74,535</u>	<u>40,225</u>	<u>23,897</u>	<u>11,089</u>	<u>(48,486)</u>	<u>302,757</u>
Segment results	29,716	17,467	10,794	(1,963)	(1,653)	—	54,361
Reconciliations:							
Interest income							64
Foreign exchange loss, net							(1,580)
Equity-settled share award and Share option expense							(2,524)
Finance costs (other than interest on lease liabilities)							(12,203)
Corporate and other unallocated expenses							(20,732)
Profit before tax							17,386
Income tax expense							(5,412)
Net profit							<u>11,974</u>
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible assets	7,231	1,369	2,017	4,136	2,366	—	17,119
Depreciation of right-of-use assets	4,127	578	2,701	2,770	955	—	11,131
Loss on disposal of items of property, plant and equipment	9	—	—	—	—	—	9
Write-down of inventories to net realisable value	2,945	—	—	—	—	—	2,945
Impairment of property, plant and equipment	56	—	—	75	52	—	183
Impairment of trade and bills receivables	3,221	—	—	—	—	—	3,221
Capital Expenditure	<u>17,603</u>	<u>865</u>	<u>655</u>	<u>4</u>	<u>6,990</u>	<u>—</u>	<u>26,117</u>

Six months ended 30 June 2020 (Unaudited)

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

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	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sales of CCMG products	247,311	207,885
Sales of Chinese healthcare products	39,358	45,097
Sales of raw Chinese herbs	9,925	21,537
Rendering of Chinese medical diagnostic services (the "Diagnostic Services")	6,163	5,913
	302,757	280,432

Disaggregated revenue information

Segments	For the six months ended 30 June					
	2021			2020		
	Sale of goods	Diagnostic services	Total	Sale of goods	Diagnostic services	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Types of goods or services						
Sale of goods	296,594	—	296,594	274,519	—	274,519
Rendering of services	—	6,163	6,163	—	5,913	5,913
Total revenue from contracts with customers	296,594	6,163	302,757	274,519	5,913	280,432
Geographical markets						
Hong Kong	107,042	5,793	112,835	102,873	5,763	108,636
Mainland China	168,848	370	169,218	144,426	150	144,576
Other countries/regions	20,704	—	20,704	27,220	—	27,220
Total revenue from contracts with customers	296,594	6,163	302,757	274,519	5,913	280,432
Timing of revenue recognition						
Goods transferred at a point in time	296,594	—	296,594	274,519	—	274,519
Services transferred over time	—	6,163	6,163	—	5,913	5,913
Total revenue from contracts with customers	296,594	6,163	302,757	274,519	5,913	280,432

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income and gains		
Government grants*	6,435	40,823
Fair value gain on biological assets, net	4,438	2,579
Gain on disposal of right-of-use assets	—	699
Gain from the sale of equipment and accessories	1,035	509
Reversal of over-provision of litigations	1,553	—
Fair value gain on financial assets at fair value through profit or loss	—	56
Bank interest income	64	496
Others	1,238	290
	<u>14,763</u>	<u>45,452</u>

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

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	102,954	109,412
Cost of services provided	3,399	3,751
Depreciation of property, plant and equipment	14,652	14,247
Depreciation of right-of-use assets	11,131	8,936
Amortisation of other intangible assets	2,467	1,809
Research and development costs*	11,926	8,044
Minimum lease payments under operating leases:		
Office equipment	—	37
Land and buildings	2,931	3,799
	2,931	3,836
Auditors' remuneration	1,195	1,107
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	46,437	44,916
Pension scheme contributions	4,771	3,632
Share option expenses (<i>note 16(a)</i>)	174	238
Equity-settled share award expenses (<i>note 16(b)</i>)	91	183
	51,473	48,969
Foreign exchange loss, net**	1,580	1,002
Fair value gain on biological assets, net	(4,438)	(2,579)
Loss on disposal of property, plant and equipment	9	1,822
Impairment of financial asset, net:		
Impairment of trade and bill receivables	3,221	3,734
Impairment of property, plant and equipment	183	225
Write-down of inventories to net realisable value***	2,945	2,435

* Included in the research and development costs, there are expenditure of HK\$809,000 (six months ended 30 June 2020: HK\$629,000) disclosed in the item of "depreciation" and HK\$4,606,000 (six months ended 30 June 2020: HK\$3,895,000) disclosed in the item of "employee benefit expenses" for the six months ended 30 June 2021.

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

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

7. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2020: 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 28.5% (six months ended 30 June 2020: 28.8%) and 34.1% (six months ended 30 June 2020: 29.4%) on the estimated assessable profits arising in the respective jurisdictions during the six months ended 30 June 2021. 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 2021 and 2020 and the preferential income tax rate was 0%.

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current	5,021	3,982
Deferred	391	969
	<hr/>	<hr/>
Total tax charge for the period	<u>5,412</u>	<u>4,951</u>

8. DIVIDEND

No interim dividend was proposed for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2021 excluding ordinary shares purchased by the Group and held for Award Scheme (note 16(b)).

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit attributable to the owners of the parent (<i>HK\$'000</i>)	<u>11,974</u>	<u>11,437</u>
Number of issued shares on 1 January	394,892,942	263,261,961
Adjustment for vested shares under share award scheme	(1,368,708)	(2,183,569)
Effect of Right Issue (<i>note 16</i>)	<u>—</u>	<u>87,269,158</u>
Weighted average number of ordinary shares in issue during the period	<u>393,524,234</u>	<u>348,347,550</u>
Basic earnings per share (expressed in HK cents per share)	<u>3.04</u>	<u>3.28</u>

(b) Diluted

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

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Profit attributable to the owners of the parent (<i>HK\$'000</i>)	<u>11,974</u>	<u>11,437</u>
Weighted average number of ordinary shares in issue during the period	393,524,234	348,347,550
Adjustment for Award Shares	<u>852,717</u>	<u>702,569</u>
Weighted average number of ordinary shares for diluted earnings per share calculation	<u>394,376,951</u>	<u>349,050,119</u>
Diluted earnings per share (expressed in HK cents per share)	<u>3.04</u>	<u>3.28</u>

The Group also had no potentially dilutive ordinary share in issue for Share Options during the six months 30 June 2021 as its exercise price is higher than market price as at the end of Reporting Period.

10. GOODWILL

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
At 1 January	88,339	88,339
Impairment recognizes during the period/year	<u>—</u>	<u>—</u>
At 30 June/31 December	<u>88,339</u>	<u>88,339</u>

Impairment testing of goodwill

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

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

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

	30 June 2021	31 December 2020
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Audited)
Plantation CGU	67,346	67,346
Chinese herbal products CGU	13,705	13,705
SODX CGU	7,288	7,288
	<u>88,339</u>	<u>88,339</u>

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

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

	30 June 2021		31 December 2020	
	Growth Rate	Pre-tax Discount Rate	Growth Rate	Pre-tax Discount Rate
Plantation CGU	3.0%	13.0%	3.0%	13.0%
Chinese herbal products CGU	2.3%	16.77%	2.0%	16.96%
SODX CGU	0.8%	13.2%	0.9%	11.7%

Assumptions were used in the value in use calculation of each CGU as at 30 June 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

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

Growth rates to extrapolate cash flows beyond the budget period — The growth rates used to extrapolate the cash flows beyond the budget period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

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

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

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

The values assigned to above key assumptions are consistent with external information sources. In the opinion of the directors of the Company, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of each CGU to exceed its recoverable amount.

11. TRADE AND BILLS RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables	244,911	230,702
Bills receivables	22,795	17,590
	267,706	248,292
Less: impairment of trade and bills receivables	(29,999)	(26,764)
	<u>237,707</u>	<u>221,528</u>

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

An ageing analysis of the trade and bills receivables as at the end of the Reporting Period, based on the invoice date and net of impairment, is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	70,781	51,898
1 to 3 months	69,649	58,716
3 to 6 months	45,724	44,515
6 months to 1 year	40,330	41,117
over 1 year	11,223	25,282
	<u>237,707</u>	<u>221,528</u>

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Non-current		
Prepayments for non-current assets	<u>46,350</u>	<u>44,087</u>
Current		
Prepayments	72,498	69,612
Right of return assets	2,820	1,967
Deposit and other receivables	<u>39,572</u>	<u>41,396</u>
	114,890	112,975
Less: impairment allowance	<u>(251)</u>	<u>(251)</u>
	114,639	112,724
Portion classified as non-current	<u>(46,350)</u>	<u>(44,087)</u>
	68,289	68,637
Total	<u>68,289</u>	<u>68,637</u>

13. TRADE AND BILLS PAYABLES

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	43,091	33,220
1 to 2 months	10,902	20,615
2 to 3 months	18,589	3,429
Over 3 months	74,585	102,080
	<u>147,167</u>	<u>159,344</u>

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

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	30 June 2021 (Unaudited) Maturity	HK\$'000
Current			
Bank overdraft – unsecured	—	—	—
Bank overdraft – secured	4.25-5.27	On demand	8,634
Bank loans – secured	1.95-5.27	On demand	67,969
Bank loans and other borrowings – secured	0.85-9.00	2021-2022	184,033
Bank loans – unsecured	2.80-4.91	On demand	20,092
Bank loans – unsecured	4.35-5.66	2021-2022	21,348
Other borrowings – unsecured	8.50	2021	1,000
			<u>303,076</u>
Non-current			
Bank loans and other borrowings – secured	0.85-8.00	2022-2030	89,276
Bank loans – unsecured	4.50-6.18	2022-2027	58,451
Other borrowings – unsecured	10.00	2023	24,410
			<u>172,137</u>
Total			<u>475,213</u>

31 December 2020
(Audited)

	Effective interest rate (%)	Maturity	HK\$'000
Current			
Bank overdraft — unsecured	—	—	—
Bank overdraft — secured	1.85–5.25	On demand	15,591
Bank loans — secured	2.25–5.27	On demand	50,179
Bank loans and other borrowings — secured	0.85–9.00	2021	124,787
Bank loans — unsecured	2.80–4.91	On demand	20,735
Bank loans — unsecured	4.50–6.18	2021	57,537
Other borrowings — unsecured	8.50	2021	10,500
			<u>279,329</u>
Non-current			
Bank loans and other borrowings — secured	0.85–8.00	2022–2030	86,754
Bank loans — unsecured	4.50–6.18	2022–2027	60,902
Other borrowings — unsecured	7.00–10.00	2022–2023	31,336
			<u>178,992</u>
Total			<u><u>458,321</u></u>
		30 June 2021	31 December 2020
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Analysed into:			
Bank loans and other borrowings payable:			
Within one year or on demand		303,076	279,329
In the second year		36,642	20,555
In the third to fifth years, inclusive		94,129	103,070
Beyond five years		41,366	55,367
		<u>475,213</u>	<u>458,321</u>

Interest-bearing bank and other borrowings are denominated in:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
HK\$	108,179	107,872
RMB	355,974	338,837
JPY	3,928	4,480
US\$	7,132	7,132
	<u>475,213</u>	<u>458,321</u>

- (a) HK Interpretation 5 “Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause” requires that a loan which includes a clause that gives the lender the unconditional right to call the loan at any time (“**repayment on demand clause**”) shall be classified in total by the borrower as current in the condensed consolidated statements of financial position. As at 31 December 2020, interest-bearing bank loans of the Group in the amount of HK\$86,505,000 include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$13,548,000 that is repayable after one year from 31 December 2020 has been classified as a current liability. No such reclassification as at 30 June 2021.
- (b) As at 30 June 2021, the Group’s bank loans amounting to approximately HK\$50,088,000 (as at 31 December 2020: HK\$42,873,000) were not in compliance with certain financial loan covenants. Since these bank loans were either repayable on demand or within one year and have already been classified as a current liability, no further reclassification is needed.
- (c) As at 30 June 2021, the Group’s bank facilities including overdraft amounting to HK\$524,407,000 (31 December 2020: HK\$519,809,000) of which HK\$475,213,000 (31 December 2020: HK\$458,321,000) had been utilised.

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

	Carrying value	
	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Property, plant and equipment	131,146	142,575
Right-of-use assets	43,217	33,588
Financial assets at fair value through profit or loss	18,258	18,258
Inventories	42,105	41,717
Trade and bills receivables	20,049	34,124
Pledged bank deposits	27,060	35,056
	<u>281,835</u>	<u>305,318</u>

15. SHARE CAPITAL

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Authorised:		
50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	<u>38,750,000</u>	<u>38,750,000</u>
Issued and fully paid:		
394,892,941 (31 December 2020: 394,892,941) ordinary shares of US\$0.1 (HK\$0.775) each	<u>306,042</u>	<u>306,042</u>

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 2020 and 1 January 2021	<u>394,892,941</u>	<u>306,042</u>	<u>220,658</u>	<u>526,700</u>
Vesting of Share Award Scheme (note 16(b))	<u>—</u>	<u>—</u>	<u>531</u>	<u>531</u>
At 30 June 2021	<u>394,892,941</u>	<u>306,042</u>	<u>221,189</u>	<u>527,231</u>

16. 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 of directors (the “**Board**”) at its absolute discretion and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Option Scheme.

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

On 9 May 2019, the Board has resolved to grant share options to certain Directors and employees of the Company, entitling them to subscribe for a total of 6,376,000 ordinary shares of the Company. During the year 2020, one eligible employee resigned and forfeited share option to subscribe for a total of 170,000 ordinary shares of the company. The exercise price and the number of shares were adjusted upon completion of the Rights Issue on 2 March 2020.

On 24 July 2020, the Board has resolved to grant share options to certain Directors and employees of the Company, entitling them to subscribe for a total of 16,124,000 ordinary shares of the Company. Among the options resolved to grant, 4 employees did not accept the grant and out of the 16,124,000 options, 800,000 options were not granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

The following share options were outstanding under the Option Scheme:

As at 30 June 2021

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

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

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

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

Details of the share option expenses of the Group during the six months ended 30 June 2021 and 2020 is listed as below:

	Six months ended 30 June 2021 HK\$'000 (Unaudited)	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Share option expenses recognised during the period	2,386	2,303
Forfeited during the period	(31)	—
Net share option expenses recognised during the period	<u>2,355</u>	<u>2,303</u>
Less: Included in directors' remuneration	(2,181)	(2,065)
Employee benefit expenses	<u>174</u>	<u>238</u>

The fair value of the share options granted during 2020 and 2019 was HK\$4,453,000 and HK\$7,893,000 respectively, of which the Group recognised a share option expense of HK\$2,355,000 in aggregate (six months ended 30 June 2020: HK\$2,303,000) during the six months ended 30 June 2021.

At the end of the Reporting Period, the Company had 21,590,562 share options outstanding under the Option Scheme, which represented approximately 5.5% 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 21,590,562 additional ordinary shares of the Company and additional equity amount of HK\$26,972,625 (before issue expenses).

(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 2021, the Share Award Scheme Trust holds 959,335 (31 December 2020: 1,916,000) shares of the Company. During the six months ended 30 June 2021, no share was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 956,665 shares were vested.

On 16 June 2017 (the “**Date of Grant**”), the board of the directors of the Company resolved to grant share awards in respect of a total of 2,050,000 shares (the “**Award Shares**”) to 18 persons who are Eligible Award Participants. Four of the Eligible Award Participants have resigned during the years ended 31 December 2018 and 2019, and therefore their 510,000 shares of Award Shares were forfeited. Details of the grant of Award Shares pursuant to the Award Scheme have been set out in the Company’s announcement dated 16 June 2017.

On 25 August 2020, the board of the directors of the Company resolved to grant share awards in respect of a total of 1,000,000 shares to Mr. SK Cheong, a newly appointed executive director. This director was re-designated as a non-executive director in June 2021 and a total of 333,335 shares was forfeited.

Details of the equity-settled share award expenses of the Group during the six months ended 30 June 2021 and 2020 is listed as below:

	Six months ended 30 June	
	2021 <i>HK\$’000</i> (Unaudited)	2020 <i>HK\$’000</i> (Unaudited)
Gross amount of recognition share award expenses	387	354
Forfeited during the period	(218)	—
Net share award expenses recognised during the period	<u>169</u>	<u>354</u>
Less: Included in directors’ remuneration	(78)	(171)
Employee benefit expenses	<u>91</u>	<u>183</u>

Summary of particulars of the Award Shares is as follows:

Date of Grant	Number of outstanding Awarded Shares as at the Date of Grant	Fair value HK\$'000	Vesting Date	Number of Awarded Shares				
				Vested during the prior periods	Forfeited during the prior periods	Vested during the current period	Forfeited during the current period	Outstanding as at 30 June 2021
16 June 2017	615,000	2,295	16 June 2018	(525,000)	(90,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2019	(290,000)	(120,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2020	(290,000)	(120,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2021	—	(120,000)	(290,000)	—	—
16 June 2017	205,000	765	16 June 2022	—	(60,000)	—	—	145,000
25 August 2020	333,333	234	1 January 2021	—	—	(333,333)	—	—
25 August 2020	83,333	58	1 February 2021	—	—	(83,333)	—	—
25 August 2020	83,333	58	1 March 2021	—	—	(83,333)	—	—
25 August 2020	83,333	58	1 April 2021	—	—	(83,333)	—	—
25 August 2020	83,333	58	1 May 2021	—	—	(83,333)	—	—
25 August 2020	83,333	58	1 June 2021	—	—	—	(83,333)	—
25 August 2020	83,333	58	1 July 2021	—	—	—	(83,333)	—
25 August 2020	83,333	58	1 August 2021	—	—	—	(83,333)	—
25 August 2020	83,336	60	1 September 2021	—	—	—	(83,336)	—
	<u>3,050,000</u>	<u>8,347</u>		<u>(1,105,000)</u>	<u>(510,000)</u>	<u>(956,665)</u>	<u>(333,335)</u>	<u>145,000</u>

17. RELATED PARTY TRANSACTIONS

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

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

Name of related parties	Relationship
Mr. Abraham Chan	Director of the Company
Mr. Chan Kin Man, Eddie (“Mr. Eddie Chan”)	Director of the Company
Edtoma Corporate Services Limited (“Edtoma”)	Company significantly influenced by Mr. Eddie Chan
CWCC Consultancy Limited (“CWCC”)	Company significantly influenced by Mr. Eddie Chan
HerbMiners Informatics Ltd (“HerbMiners”)	Company controlled by Mr. Abraham Chan

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

		Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Repayment of Loans to a director	(i)	—	15,000
Interest expense to a director	(i)	—	107
Professional service fees	(ii)	365	262

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 six months ended 30 June 2020, the Group repaid loans amounting to HK\$15 million to Mr. Abraham Chan. 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 2021		31 December 2020	
	Maximum amount outstanding	Maximum amount outstanding	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 (i)	—	—	—	15,000
Amount due to a related company				
HerbMiners (ii)	—	5,900	5,900	9,900

- (i) 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.
- (ii) The balance with HerbMiners was unsecured, interest-free and settled on terms of three months.

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	5,603	2,688
Pension scheme contributions	33	27
Share option expense (<i>note 16 (a)</i>)	2,181	2,065
Equity-settled share award expense (<i>note 16 (b)</i>)	78	171
	7,895	4,951

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Management has assessed that:

- (a) The fair value of the financial assets at fair value through profit or loss has been estimated based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data; and
- (b) the fair values of the Group's financial assets classified as financial assets at amortised cost and financial liabilities were approximate to their carrying amounts largely due to the short term maturities of these instruments.

There were no transfers of fair value measurements during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Despite the challenging economic situation, the Group's revenue during the six months ended 30 June 2021 (“**2021 Interim Period**”) was HK\$302.8 million, representing an increase of HK\$22.3 million or 8.0% as compared to the corresponding period of last year.

The Group reported a net profit of HK\$12.0 million for the 2021 Interim Period as compared with the net profit of HK\$11.4 million in the corresponding period of last year. Such net profit was mainly driven by the rebound of China CCMG sales and partly attributable to the Government subsidies received in the PRC. Excluding such non-recurring Government subsidies for both 2021 and 2020 Interim Periods, the Group would record an operating profit for the 2021 Interim Period, which would be a turnaround from the operating loss that would be recorded for 2020 Interim Period.

Looking forward, the Group believes that the robust and steady and growing economic momentum in China will continue in second half of 2021, which will balance the adversity brought by global pandemic. Due to the beneficial policies in Chinese medicine industry in China, it is expected that the Group's financial performance will continue to improve with a better business environment and consuming sentiment.

During this exceptional pandemic fighting time and even in the post pandemic future, the Group believes that consumer health awareness will continue to increase and Chinese medicine will play a much more important role because of its active herbal ingredients and the powerful botanic science behind. With our dedication in Chinese medicine modernization, the Group will continue to maintain the high quality of our CCMG products, discover new effective extracts from plants, and proactively develop innovative healthcare products featuring natural ingredients. We will devote more focus to market the Group's competitive products online for reaching out to a more extensive clientele.

The Group will continue to focus on developing powerful and easy-to-use IT tools to support the Chinese medicine business in all aspects. Budget has been allocated to revamp our existing mobile app, e-shop, diagnosis software, and the total solution of client management system in phases.

The Group anticipates that volatility and uncertainty will continue in the remaining period of 2021. While we will closely monitor the business environment and proactively adjust our business strategy to cope with the challenges, we believe it will be important to seek opportunities in business cooperation, especially in the Greater Bay Area. The Group will continue to include strategic partners to achieve synergy in the progress of Chinese medicine modernization. We believe that a deep and strong collaboration will bring the Group to another level.

FINANCIAL REVIEW

Sales performance by segment

	Six months ended 30 June					
	2021		2020		Change	
	Revenue HK\$'000	% of total	Revenue HK\$'000	% of total	Change HK\$'000	%
China CCMG	156,880	51.8%	121,498	43.3%	35,382	29.1
Hong Kong CCMG	72,697	24.0%	68,311	24.4%	4,386	6.4
Chinese healthcare products	39,358	13.0%	45,097	16.1%	(5,739)	(12.7)
Nong's® (農本方®) Chinese medicine clinics	23,897	7.9%	23,989	8.6%	(92)	(0.4)
Plantation	9,925	3.3%	21,537	7.6%	(11,612)	(53.9)
Total	<u>302,757</u>	<u>100.0%</u>	<u>280,432</u>	<u>100.0%</u>	22,325	8.0
Profit for the period	11,974		11,437		537	4.7

China CCMG

During the 2021 Interim Period, the sales of CCMG in China was HK\$156.9 million, representing an increase of HK\$35.4 million or 29.1% compared to HK\$121.5 million for the corresponding period in last year. Due to the control of the COVID-19 pandemic generally since the beginning of 2021, the PRC Government has gradually relaxed the measures to prevent and control the COVID-19, including travel restrictions, regional lockdowns, and temporary business shutdowns of certain Chinese medicine clinics and hospitals, which drove consumer activity back to normal level. As a result, the China CCMG sales business rebounded, especially in first quarter of 2021.

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 2021 Interim Period, the direct sales of CCMG products in Hong Kong was HK\$72.7 million, representing an increase of HK\$4.4 million or 6.4% compared to HK\$68.3 million for the corresponding period in last year. In the 2021 Interim Period, the COVID-19 pandemic was gradually under control, which revived the overall business environment in Hong Kong and restored the consumers' sentiment and the demand for Chinese medicine services.

During the 2021 Interim Period, the Group still remained as a leading CCMG supplier to the major non-profit organisations in Hong Kong, and continued to expand its customer base in private Chinese medicine practitioners sector.

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

During the 2021 Interim Period, the sales of CCMG products and provision of Chinese medical diagnostic services from the Group's Nong's® (農本方®) Chinese medicine clinics generated revenue of HK\$23.9 million in aggregate, representing a minimal decrease of HK\$0.1 million or 0.4% compared to HK\$24.0 million for the corresponding period in last year. The decrease in revenue was mainly attributable to the downsizing of the clinic network in Hong Kong by closing a number of loss-making clinics. The number of clinics in operation in Hong Kong decreased from 30 clinics as at 31 December 2020 to 25 clinics as at 30 June 2021.

Although the revenue of Nong's clinics segment recorded a slight decrease of less than 1%, the loss attributed by Nong's clinics segment has substantially decreased during the 2021 Interim Period as more loss-making clinics were closed and the relevant assets of those clinics were fully impaired for the year ended 31 December 2020.

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

Chinese healthcare products

	Six months ended 30 June					
	2021		2020		Change	
	Revenue <i>HK\$000</i>	% of total	Revenue <i>HK\$000</i>	% of total	<i>HK\$'000</i>	%
U.S.	15,606	39.7%	20,745	46.0%	(5,139)	(24.8)
Japan	4,754	12.1%	5,739	12.7%	(985)	(17.2)
Hong Kong	18,998	48.2%	18,613	41.3%	385	2.1
	<u>39,358</u>	<u>100.0%</u>	<u>45,097</u>	<u>100.0%</u>	<u>(5,739)</u>	<u>(12.7)</u>

During the 2021 Interim Period, revenue from sales of Chinese healthcare products in the U.S., Japan and Hong Kong markets was HK\$39.4 million in aggregate, representing a decrease of HK\$5.7 million or 12.7% as compared to HK\$45.1 million in the corresponding period in last year.

Among the Group's Chinese healthcare products segment, the sales in overseas market showed a decrease due to the decrease in consumer demand in those countries as a result of the outbreak of the COVID-19 pandemic. The mild increase in sales in Hong Kong market is due to slow recovery in the retail market and sluggish consumption sentiment.

With the better control of the COVID-19 pandemic in the 2021 Interim Period, the Group believes that consumer health awareness will be increased and the growth in demand for healthcare products will render further opportunities for the Group's Chinese healthcare products segment. The Group will continue to proactively develop new and innovative healthcare products to enrich the products portfolio, devote more focus to market the Group's healthcare products through the online platform in order to counteract the weakened retail market.

Plantation

For the 2021 Interim Period, the upstream plantation segment contributed HK\$9.9 million to the Group's overall revenue, representing a decrease from HK\$21.5 million recorded in the corresponding period in last year by HK\$11.6 million or 53.9%. 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 the part of plantation business went through restructuring in the management team during the 2021 Interim Period, the business and operation dropped to a low level temporarily.

Profitability

	Six months ended 30 June		Change
	2021	2020	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	302,757	280,432	8.0%
Cost of sales	(106,353)	(115,598)	(8.0%)
Gross profit	<u>196,404</u>	<u>164,834</u>	<u>19.2%</u>
Gross profit margin	<u>64.9%</u>	<u>58.8%</u>	

The Group's gross profit margin for the 2021 Interim Period was 64.9%, representing an increase of 6.1% compared to 58.8% in the corresponding period in last year. The increase was mainly due to the combined effect of (i) the proportion of revenue from CCMG products was higher, which earned a relatively high gross profit margin among the Group's different segments, and (ii) the proportion of sales in the PRC CCMG products segment directly to the hospitals was higher, with higher gross profit margin than sales to distributors.

Other income and gains

The Group's other income and gains mainly comprised of government grants, fair value gain on biological assets, gain from sale of equipment and accessories, financial assets at fair value through profit or loss and interest income. For the 2021 Interim Period, the Group's other income and gain was HK\$14.8 million, representing a decrease of HK\$30.7 million or 67.5% compared to HK\$45.5 million for the corresponding period in last year.

The decrease was mainly attributable to the significant decrease in non-recurring government grants by HK\$34.4 million for the 2021 Interim Period compared to the corresponding period in last year. The government grant income in the 2020 Interim Period mainly consisted of the amounts received from relevant PRC authorities to reward the Group's industrial investment in Guizhou province, tax rebates subsidy and subsidies from Hong Kong Government to support enterprise struck by the COVID-19 pandemic. Such government grants received were lower in the 2021 Interim Period.

Furthermore, the Group recorded a net fair value gain on biological assets of HK\$4.4 million for the 2021 Interim Period, whereas the fair value gain on biological asset was HK\$2.6 million in the corresponding period in last year.

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 2021 Interim Period, the Group's selling and distribution expenses was HK\$92.4 million, representing a decrease of HK\$4.4 million or 4.5% compared to HK\$96.8 million for the corresponding period in last year. The decrease was mainly attributable to (i) control in the PRC marketing expenses was effective and (ii) the restructuring of the sales channels of OTC products in Hong Kong which drove down the marketing expenses.

For the 2021 Interim Period, selling and distribution expenses as a percentage to revenue decreased from 34.5% in last corresponding period to 30.5% for the 2021 Interim Period. With the sales rebound in the 2021 Interim Period, the Group has further driven a lower marketing expenses to maintain the brand competitiveness and the market awareness of the Group's products.

Administrative expenses

	Six months ended			
	30 June			
	2021	2020	Change	
	HK\$'000	HK\$'000	HK\$'000	%
Clinics operating expenses	18,000	18,714	(714)	(3.8)
Research and development costs	11,926	8,044	3,882	48.3
General administrative expenses	52,360	48,919	3,441	7.0
Total administrative expenses	<u>82,286</u>	<u>75,677</u>	6,609	8.7

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 2021 Interim Period, the Group's operating expenses for clinics was HK\$18.0 million, representing a decrease of HK\$0.7 million or 3.8% compared to HK\$18.7 million for the corresponding period in last year. The decrease was mainly attributable to the downsizing of clinic network in Hong Kong. The number of clinics in operation in Hong Kong decreased from 30 clinics as at 31 December 2020 to 25 clinics as at 30 June 2021.

The research and development costs for the 2021 Interim Period increased by HK\$3.9 million or 48.3%, mainly due to the increase in number of research and development staff during the 2021 Interim Period.

The Group's general administrative expenses for the 2021 Interim Period increased by HK\$3.4 million or 7.0%, mainly due to the increase depreciation in fixed assets after the completion of a newly built production plant and increase in Directors' remuneration.

Other expenses

The Group's other expenses mainly comprised of loss on disposal of property, plant and equipment, net foreign exchange loss and voluntary charity donation. For the 2021 Interim Period, the Group's other expenses was HK\$2.3 million, representing a decrease of HK\$4.2 million or 64.6% compared to HK\$6.5 million for the corresponding period in last year. The decrease was primarily attributable to the decrease in voluntary charity donation.

Finance costs

For the 2021 Interim Period, the Group's finance costs amounted to HK\$13.5 million, representing an increase of HK\$2.3 million or 20.8% as compared to HK\$11.2 million for the corresponding period in last year. The increase was mainly due to the increase in average outstanding balance in bank and other borrowings during the 2021 Interim Period.

Income tax expense

During the 2021 Interim Period, the Group's income tax expenses increased from HK\$5.0 million in the corresponding period in last year to HK\$5.4 million for the 2021 Interim Period. The income tax expense was arose from the profitable subsidiaries and the increase was mainly due to the increase in profit of the Group during the 2021 Interim Period.

Profit for the period

The Group's revenue for the 2021 Interim Period was HK\$302.8 million, representing an increase of HK\$22.3 million or 8.0%, compared to HK\$280.4 million for the corresponding period in last year. The sales increase was attributable to the resumption of consumer activity as the COVID-19 pandemic in the People's Republic of China (the "PRC") and Hong Kong have largely been under control since early 2021, which drove the rebound of consumers' sentiment and the demand for Chinese medicine services during the 2021 Interim Period.

The Group recorded a net profit for the 2021 Interim Period of HK\$12.0 million as compared with the net profit of HK\$11.4 million during the corresponding period in last year. Such net profit is mainly attributable to the rebound of China CCMG sales and partly attributable to the Government subsidies received in the PRC by the Group in the 2021 Interim Period. If excluding such non-recurring Government subsidies for both 2021 and 2020 Interim Periods, the Group would record an operating profit of approximately HK\$5.5 million for the 2021 Interim Period, which turned the operating loss that would be recorded for 2020 Interim Period to operating profit for the 2021 Interim Period.

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 2021 Interim Period, the total capital expenditure was HK\$33.9 million (six months ended 30 June 2020: HK\$23.4 million). The capital expenditures during the 2021 Interim Period was mainly incurred for construction of new warehouses in Nanning to replace the existing outsourcing warehouses for the Group's inventories storage in Nanning.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had net current assets of HK\$6.5 million (31 December 2020: net current assets of HK\$15.8 million), which included cash and cash equivalent of HK\$73.6 million (31 December 2020: HK\$91.4 million) and interest-bearing bank and other borrowings amounting to HK\$475.2 million (31 December 2020: HK\$458.3 million). As at 30 June 2021, the Group's unused bank facilities including overdraft amounted to HK\$49.2 million (31 December 2020: HK\$61.5 million).

TREASURY POLICY AND RISK MANAGEMENT

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities. As at 30 June 2021, the Group's credit risk is primarily attributable to trade receivables, deposits, bank deposits with original maturity over three months and bank balances and cash. At 30 June 2020 and 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

GEARING RATIO

As at 30 June 2021, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank and other borrowings by total equity, was 0.9 (31 December 2020: 0.9). The gearing ratio remaining stable during the six months ended 30 June 2021 was mainly as a result of the increase in interest-bearing bank and other borrowings which is offset by the increase in the equity base of the Company after the retained profits being recognized.

EXCHANGE RISK

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

HUMAN RESOURCES

As at 30 June 2021, the Group had a total of 702 employees (31 December 2020: 711 employees). During the six months ended 30 June 2021, total staff costs excluding Directors' remuneration was HK\$51.5 million (six months ended 30 June 2020: HK\$49.0 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.

PLEDGE OF ASSETS

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

	Carrying value	
	30 June 2021 <i>HK\$'000</i>	31 December 2020 <i>HK\$'000</i>
Property, plant and equipment	131,146	142,575
Right-of-use assets	43,217	33,588
Financial assets at fair value through profit or loss	18,258	18,258
Inventories	42,105	41,717
Trade and bills receivables	20,049	34,124
Pledged bank deposits	27,060	35,056
	<u>281,835</u>	<u>305,318</u>

CAPITAL COMMITMENT

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Contracted, but not provided for:		
Buildings	19,042	22,375
Plant and machinery	347	1,212
	<u>19,389</u>	<u>23,587</u>

MATERIAL ACQUISITIONS, DISPOSALS AND MATERIAL INVESTMENT

There were no material acquisitions or disposals of subsidiaries, associates and joint-ventures, and no material investment was held by the Group during the six months ended 30 June 2021.

CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 30 June 2021.

MATERIAL LITIGATION

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). In mid-January 2021, the Company received the judgment made by the PRC Court against the subsidiary of the Group and the Group has therefore accrued additional HK\$11.7 million provision for such litigation cases according to the first-instance judgment of the PRC court for the year ended 31 December 2020. Final settlement was agreed in June 2021 between the Company and the plaintiff during the six months ended 30 June 2021 by the Group paying RMB16 million (equivalent to approximately HK\$19.1 million) to the plaintiff for full and final settlement of the litigation case. As a result of the settlement of the litigation case, the Group recorded a reversal of over-provision of litigation of HK\$1.6 million during the 2021 Interim Period. Other than the litigation case disclosed above, the Group did not involved in other material litigation during the 2021 Interim Period.

THE RIGHTS ISSUE

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

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

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

USE OF PROCEEDS FROM THE COMPANY’S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK\$288.4 million (the “**Net Proceeds**”). As at 30 June 2021, the Group had utilised approximately HK\$278.8 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	Approximate amount unutilized (in HK\$ million)	Expected timeline intended use
				utilized during the Reporting Period (in HK\$ million)		
To expand manufacturing facilities and enhance existing production lines	86.5	30.00%	86.5	—	—	—
To establish new Nong’s® Chinese medicine clinics in Hong Kong and the PRC	72.1	25.00%	72.1	—	—	—
To expand distribution network into new target cities in the PRC	57.7	20.00%	57.7	—	—	—
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15.00%	32.6	1.1	9.6	By December 2021
Additional working capital of the Group	28.8	10.00%	28.8	—	—	—
	<u>288.4</u>	<u>100.00%</u>	<u>277.7</u>	<u>1.1</u>	<u>9.6</u>	

The unutilised net proceeds of HK\$9.6 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. 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 entered into an 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. On 25 March 2021, the Company announced that the long stop date of the Asset Disposal would be extended to 30 September 2021 and as at the date of this announcement, the Asset Disposal is yet to be completed. For further information in relation to the Asset Disposal, please refer to the announcements of the Company dated 8 October 2020 and 25 March 2021.

NET PROCEEDS FROM THE RIGHTS ISSUE

On 3 January 2020, the Company announced a proposed Rights Issue to raise about HK\$105 million before expenses (the “**Rights Issue**”) on the basis of one right share for two existing shares held on the record date. The net proceeds raised from the Rights Issue after deducting the relevant expenses, was approximately HK\$98 million. As at 31 December 2020, the net proceeds from the Rights Issue have been fully utilised according to the proposed application. 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.

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.

The Share Option Mandate Limit was refreshed by the shareholders in the annual general meeting held on 28 May 2021, which allows the Company to grant further options under the Share Option Mandate for subscription of up to a total number of 39,489,294 shares, representing 10% of the shares in issue as at the date of passing the resolution.

On 9 May 2019, a total of 6,376,000 options were granted to four Directors and certain employees of the Company, entitling them to subscribe for a total of 6,376,000 shares at the exercise price of HK\$2.4 per share. The closing price of the share immediately before the date of grant is HK\$2.267. As a result of the completion of Rights Issue on 2 March 2020, the exercise price of the Share Options and the number of Shares which may fall to be issued upon exercise of the subscription rights attaching to the outstanding Share Options granted on 9 May 2019 were adjusted. The adjusted exercise price of the outstanding Share Options granted on 9 May 2019 was HK\$2.3 per share.

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

During the six months ended 30 June 2021, no options were granted by the Board.

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

Grantees	Grant date	Exercise price	Vesting date	Number of Shares issuable under Options				As at 30 June 2021
				As at 1 January 2021	granted during the Reporting Period	Exercised during the Reporting Period	Adjustment/ canceled/ lapsed during the Reporting Period	
Directors	9 May 2019	HK\$2.3	10 May 2020	2,879,006	—	—	—	2,879,006
			10 May 2021	2,879,006	—	—	—	2,879,006
				<u>5,758,012</u>	<u>—</u>	<u>—</u>	<u>—</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>13,924,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,924,000</u>
Sub-total for Directors			<u>19,682,012</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,682,012</u>	
Employees	9 May 2019	HK\$2.3	10 May 2020	178,922	—	—	(1,785)	177,137
			10 May 2021	178,922	—	—	(1,785)	177,137
			10 May 2022	178,922	—	—	(1,784)	177,138
			10 May 2023	178,922	—	—	(1,784)	177,138
		<u>715,688</u>	<u>—</u>	<u>—</u>	<u>(7,138)</u>	<u>708,550</u>		
	24 July 2020	HK\$0.8	23 July 2021	466,667	—	—	(66,667)	400,000
			23 July 2022	466,667	—	—	(66,667)	400,000
23 July 2023			466,666	—	—	(66,666)	400,000	
	<u>1,400,000</u>	<u>—</u>	<u>—</u>	<u>(200,000)</u>	<u>1,200,000</u>			
Sub-total for Employees			<u>2,115,688</u>	<u>—</u>	<u>—</u>	<u>(207,138)</u>	<u>1,908,550</u>	
Total			<u>21,797,700</u>	<u>—</u>	<u>—</u>	<u>(207,138)</u>	<u>21,590,562</u>	

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 2021, 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 2021, 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 Prof. Tsui Lap Chee. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the Group’s policies and to perform other duties and responsibilities as assigned by our Board. The Audit Committee discussed the accounting principles and policies adopted by the Group together with the management and the external auditors. The interim report of the Group for the six months ended 30 June 2021 has also been reviewed and passed by the Audit Committee.

REVIEW OF THE INTERIM RESULTS BY AUDITOR

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021 has been reviewed by the auditors of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 — “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, all Directors confirmed that, they have complied with the required standard of dealing as set out in the Model Code throughout the six months ended 30 June 2021.

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 2021.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2021 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available for review on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com in due course.

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

Hong Kong, 20 August 2021

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