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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 2023**

	<b>FINANCIAL HIGHLIGHT</b>					
	<b>Six months ended 30 June</b>					
	<b>2023</b>		<b>2022</b>		<b>Change</b>	
	<b>Revenue</b>	<b>% of</b>	<b>Revenue</b>	<b>% of</b>	<b>Change</b>	
	<b>HK\$'000</b>	<b>total</b>	<b>HK\$'000</b>	<b>total</b>	<b>HK\$'000</b>	<b>%</b>
China CCMG	<b>22,311</b>	<b>11.5%</b>	77,429	33.6%	(55,118)	(71.2%)
HK and overseas CCMG	<b>106,755</b>	<b>54.7%</b>	83,668	36.3%	23,087	27.6%
Chinese healthcare products	<b>37,465</b>	<b>19.2%</b>	38,309	16.6%	(844)	(2.2%)
Nong's® (農本方®) Chinese medicine clinics	<b>25,554</b>	<b>13.1%</b>	22,061	9.5%	3,493	15.8%
Plantation	<b>2,996</b>	<b>1.5%</b>	9,293	4.0%	(6,297)	(67.8%)
<b>Total</b>	<b><u>195,081</u></b>	<b><u>100.0%</u></b>	<b><u>230,760</u></b>	<b><u>100.0%</u></b>	(35,679)	(15.5%)
(Loss) for the period	<b>(37,675)</b>		(39,903)		2,228	(5.6%)

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 2023 (the “**Reporting Period**”) with the corresponding comparative figures of the six months ended 30 June 2022 and certain comparative audited figures as at 31 December 2022 as follows.

## **INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

		<b>Six months ended 30 June</b>	
		<b>2023</b>	<b>2022</b>
	<i>Notes</i>	<b>HK\$’000</b>	<b>HK\$’000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>REVENUE</b>	5	<b>195,081</b>	230,760
Cost of sales		<u>(83,156)</u>	<u>(80,655)</u>
Gross profit		<b>111,925</b>	150,105
Other income and gains	5	<b>6,056</b>	7,899
Selling and distribution expenses		<b>(50,173)</b>	(82,358)
Administrative expenses		<b>(80,607)</b>	(80,006)
Impairment loss on financial assets, net		<b>(46)</b>	2,060
Other expenses		<b>(10,321)</b>	(18,405)
Finance costs		<u>(13,348)</u>	<u>(13,994)</u>
<b>LOSS BEFORE TAX</b>	6	<b>(36,514)</b>	(34,699)
Income tax expense	7	<u>(1,161)</u>	<u>(5,204)</u>
<b>LOSS FOR THE PERIOD</b>		<u><b>(37,675)</b></u>	<u>(39,903)</u>
Attributable to:			
Owners of the parent		<u><b>(37,675)</b></u>	<u>(39,903)</u>
<b>LOSS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and diluted			
– For loss for the period			
(expresses in HK cents per share)	9	<u><b>(9.54)</b></u>	<u>(10.12)</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>LOSS FOR THE PERIOD</b>	<b><u>(37,675)</u></b>	<b><u>(39,903)</u></b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(6,856)	(8,609)
Reclassification of reserve upon deregistration of a subsidiary	<u>429</u>	<u>–</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b><u>(6,427)</u></b>	<b><u>(8,609)</u></b>
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD</b>	<b><u>(44,102)</u></b>	<b><u>(48,512)</u></b>
Attributable to:		
Owners of the parent	<b><u>(44,102)</u></b>	<b><u>(48,512)</u></b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>30 June 2023</b>	31 December 2022
		<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>304,320</b>	319,763
Investment properties		<b>4,296</b>	4,434
Right-of-use assets		<b>99,584</b>	111,314
Goodwill	<i>10</i>	<b>20,993</b>	20,993
Other intangible assets		<b>35,963</b>	37,640
Investment in a joint venture		<b>1,410</b>	–
Financial assets at fair value through profit or loss		<b>20,265</b>	19,940
Prepayments for non-current assets		<b>4,419</b>	5,370
Deferred tax assets		<b>10,426</b>	11,047
		<hr/>	<hr/>
Total non-current assets		<b>501,676</b>	530,501
<b>CURRENT ASSETS</b>			
Inventories		<b>197,451</b>	172,380
Biological assets	<i>11</i>	<b>6,500</b>	18,432
Trade and bills receivables	<i>12</i>	<b>83,262</b>	131,866
Prepayments, deposits and other receivables	<i>13</i>	<b>73,927</b>	49,889
Tax recoverable		<b>947</b>	6,415
Restricted cash and pledged deposits		<b>34,550</b>	31,183
Cash and cash equivalents		<b>48,073</b>	75,831
		<hr/>	<hr/>
Total current assets		<b>444,710</b>	485,996
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>14</i>	<b>144,095</b>	137,911
Other payables and accruals		<b>111,317</b>	97,164
Interest-bearing bank and other borrowings	<i>15</i>	<b>375,491</b>	410,140
Lease liabilities		<b>16,002</b>	18,505
Tax payable		<b>3,249</b>	1,439
Government grants		<b>173</b>	247
		<hr/>	<hr/>
Total current liabilities		<b>650,327</b>	665,406
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		<b>(205,617)</b>	(179,410)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>296,059</b>	351,091
		<hr/>	<hr/>

		<b>30 June</b>	31 December
		<b>2023</b>	2022
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
		<b>(Unaudited)</b>	(Audited)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b><u>296,059</u></b>	<u>351,091</u>
<b>NON-CURRENT LIABILITIES</b>			
Other payables and accruals		<b>13,804</b>	14,248
Interest-bearing bank and other borrowings	<i>15</i>	<b>44,372</b>	48,680
Lease liabilities		<b>18,984</b>	25,832
Government grants		<b>762</b>	1,025
Deferred tax liabilities		<b><u>1,803</u></b>	<u>3,017</u>
Total non-current liabilities		<b><u><u>79,725</u></u></b>	<u><u>92,802</u></u>
Net assets		<b><u><u>216,334</u></u></b>	<u><u>258,289</u></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	<i>16</i>	<b>306,820</b>	306,820
Shares held for share award scheme	<i>17(b)</i>	<b>(2,859)</b>	(2,859)
Reserves		<b><u>(87,627)</u></b>	<u>(45,672)</u>
Total equity		<b><u><u>216,334</u></u></b>	<u><u>258,289</u></u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax:	<b>(36,514)</b>	(34,699)
Adjustments for:		
Finance costs	<b>13,348</b>	13,994
Bank interest income	<b>(284)</b>	(264)
Foreign exchange difference, net	<i>6</i> <b>(66)</b>	867
Equity-settled share award and share option expenses	<i>17</i> <b>2,147</b>	166
Depreciation of property, plant and equipment	<i>6</i> <b>9,413</b>	16,494
Depreciation of right-of-use assets	<i>6</i> <b>9,325</b>	10,076
Amortisation of other intangible assets	<i>6</i> <b>2,646</b>	1,738
Fair value loss on biological assets, net	<i>6</i> <b>6,683</b>	14,066
Fair value gain on financial assets at fair value through profit or loss	<i>5</i> <b>(325)</b>	(200)
Loss on termination of right-of-use assets	<i>6</i> <b>246</b>	–
Impairment/(reversal of impairment) of trade and bills receivables, net	<i>6</i> <b>46</b>	(2,060)
(Write-back)/write-down of inventories to net realisable value	<i>6</i> <b>(915)</b>	230
	<b>5,750</b>	20,408
Increase in inventories	<b>(11,850)</b>	(17,044)
Addition in biological assets	<b>(12,001)</b>	(4,286)
Decrease in trade and bills receivables	<b>46,749</b>	83,485
Increase in prepayments, deposits and other receivables	<b>(32,914)</b>	(10,738)
Increase in trade and bills payables	<b>10,631</b>	16,065
Decrease in government grants	<b>(307)</b>	(619)
Increase/(decrease) in other payables and accruals	<b>13,228</b>	(12,720)
Decrease in tax recoverable	<b>5,457</b>	–

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cash generated from operations	<b>24,743</b>	74,551
Interest received	<b>284</b>	264
Hong Kong income tax paid	<b>(432)</b>	(3,632)
Overseas profits tax paid	<b>(54)</b>	(930)
PRC corporate income tax reduction and refund	<b>266</b>	4,800
	<hr/>	<hr/>
Net cash flows generated from operating activities	<b>24,807</b>	75,053
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	<b>(3,433)</b>	(11,656)
Proceeds from disposal of items of property, plant and equipment and other intangible assets	<b>1</b>	908
Addition to intangible assets	<b>(1,002)</b>	(1,265)
(Increase)/decrease in restricted cash and pledged deposits	<b>(3,367)</b>	8,355
Acquisition of a joint venture	<b>(630)</b>	–
	<hr/>	<hr/>
Net cash flows used in investing activities	<b>(8,431)</b>	(3,658)
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in director's loan	<b>2,841</b>	–
Increase in amount due from related parties	<b>–</b>	(1,264)
Proceeds from issue of shares upon exercise of share options	<b>–</b>	803
New bank loans and other borrowings	<b>59,071</b>	103,641
Repayment of bank loans and other borrowings	<b>(84,561)</b>	(182,822)
(Decrease)/increase in overdrafts	<b>(3,195)</b>	6,965
Principal portion of lease payment	<b>(9,744)</b>	(9,015)
Interest paid	<b>(13,348)</b>	(13,994)
	<hr/>	<hr/>
Net cash flows used in financing activities	<b>(48,936)</b>	(95,686)
	<hr/>	<hr/>

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>(32,560)</b>	(24,291)
Cash and cash equivalents at beginning of period	<b>75,831</b>	59,671
Effect of foreign exchange rate changes, net	<b>4,802</b>	4,140
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>48,073</b>	39,520
	<hr/> <hr/>	<hr/> <hr/>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>48,073</b>	39,520
	<hr/> <hr/>	<hr/> <hr/>



# 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 2023 (the “**Reporting Period**”), the Company and its subsidiaries (the “**Group**”) is principally engaged in the research, development, production and sale of concentrated Chinese medicine granule (“**CCMG**”) products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and manufacturing and sales of Traditional Chinese Medicine (“**TCM**”) decoction pieces (“**中藥飲片**”), as well as rendering of Chinese medical diagnostic services.

In the opinion of the board (the “**Board**”) of directors (the “**Directors**”) of the Company, 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. 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 2023 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 2022.

The condensed consolidated interim financial statements have not been audited by the Company’s independent auditors but have been reviewed by the Company’s audit committee.

As at 30 June 2023, the Group had net current liabilities of HK\$205.6 million (31 December 2022: HK\$179.4 million), and significant drop in the sales of CCMG products in Mainland China which was affected by the transition to the new national standards. Although the Group had successfully registered majority of its CCMG products under the new national standards, the operating cash flow from sales of the Group's CCMG products had been significantly impacted which resulted in net current liability opposition as at 30 June 2023. In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance as set out below in assessing whether the Group will have sufficient financial resources to continue as a going concern:

- (a) The Group had gradually resumed to its normal operation after the year end date and the sales of CCMG products have been gradually increased subsequently;
- (b) The Group's sales continue to grow in Hong Kong region;
- (c) The Group continues to diversify its product mix with the aim to maximize its gross margin;
- (d) The Group is taking measures to tighten cost controls over administrative and other operating expenses aiming at improving the working capital and cash flow position of the Group;
- (e) During the period and subsequent to the period end date, the Group had successfully renewed its short term bank loans with the banks; and
- (f) As at 30 June 2023, the Group had unutilised bank facilities amounting to HK\$87.1 million, which could be utilised to repay the total principal and interest due upon the respective repayment dates.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period over twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with the Group's internally generated funds and unutilised bank facilities, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 30 June 2023 on a going concern basis.

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period's financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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

#### 4. OPERATING SEGMENT INFORMATION

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

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

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

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 2023 and 2022.

**Six months ended 30 June 2023 (Unaudited)**

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Segment revenue:</b>							
Revenue from external customers	22,311	106,755	37,465	25,554	2,996	–	195,081
Intersegment sales	57,994	2,205	520	–	4,438	(65,157)	–
	<u>80,305</u>	<u>108,960</u>	<u>37,985</u>	<u>25,554</u>	<u>7,434</u>	<u>(65,157)</u>	<u>195,081</u>
<b>Segment results</b>	(1,229)	36,634	(3,520)	2,039	(13,659)	–	20,265
<b>Reconciliations:</b>							
Interest income							284
Foreign exchange difference, net							66
Equity-settled share award and Share option expense							(2,147)
Finance costs (other than interest on lease liabilities)							(12,505)
Corporate and other unallocated expenses							(42,477)
Loss before tax							(36,514)
Income tax expense							(1,161)
<b>Net loss</b>							<u>(37,675)</u>
<b>Other segment information:</b>							
Depreciation and amortisation of property, plant and equipment and other intangible assets	5,874	1,220	2,007	681	2,277	–	12,059
Depreciation of right-of-use assets (Write-back)/write-down of inventories to net realisable value	732	262	3,453	4,137	741	–	9,325
	76	(1,164)	(9)	–	182	–	(915)
Impairment/(reversal of impairment) loss on trade and bills receivables, net	(1,657)	393	270	–	1,040	–	46
Government grants	3,036	152	844	–	1,181	–	5,213
Capital Expenditure*	<u>2,366</u>	<u>–</u>	<u>1,384</u>	<u>5,408</u>	<u>992</u>	<u>–</u>	<u>10,150</u>

Six months ended 30 June 2022 (Unaudited)

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Segment revenue:</b>							
Revenue from external customers	77,429	83,668	38,309	22,061	9,293	–	230,760
Intersegment sales	56,829	4,900	676	–	62,041	(124,446)	–
	<u>134,258</u>	<u>88,568</u>	<u>38,985</u>	<u>22,061</u>	<u>71,334</u>	<u>(124,446)</u>	<u>230,760</u>
<b>Segment results</b>	2,315	23,594	1,482	(2,376)	(11,837)	–	13,178
<b>Reconciliations:</b>							
Interest income							264
Foreign exchange difference, net							(867)
Equity-settled share award and Share option expense							(166)
Finance costs (other than interest on lease liabilities)							(13,310)
Corporate and other unallocated expenses							(33,798)
Loss before tax							(34,699)
Income tax expense							(5,204)
<b>Net loss</b>							<u>(39,903)</u>
<b>Other segment information:</b>							
Depreciation and amortisation of property, plant and equipment and other intangible assets	6,884	1,300	2,225	4,730	3,093	–	18,232
Depreciation of right-of-use assets	1,882	–	3,228	3,986	980	–	10,076
Write-down of inventories to net realisable value	103	–	57	–	70	–	230
Impairment/(reversal of impairment) loss on trade and bills receivables, net	(1,753)	272	335	–	(914)	–	2,060
Government grants	4,062	–	132	640	923	–	5,757
Capital Expenditure*	<u>22,884</u>	<u>90</u>	<u>10,792</u>	<u>10,147</u>	<u>–</u>	<u>–</u>	<u>43,913</u>

\* *Capital expenditure consists of additions to right-of use assets amounted to HK\$5,217,000 (six months ended 30 June 2022: HK\$19,902,000).*

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered.

An analysis of revenue, other income and gains is as follows:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Revenue from contracts with customers		
Sales of CCMG products	<b>148,058</b>	177,598
Sales of Chinese healthcare products	<b>37,465</b>	38,309
Sales of raw Chinese herbs	<b>2,996</b>	9,293
Rendering of Chinese medical diagnostic services (the "Diagnostic Services")	<b>6,562</b>	5,560
	<b>195,081</b>	230,760

## Disaggregated revenue information

Segments	For the six months ended 30 June					
	2023			2022		
	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>
<b>Types of goods or services</b>						
Sale of goods	188,519	–	188,519	225,200	–	225,200
Rendering of services	–	6,562	6,562	–	5,560	5,560
Total revenue from contracts with customers	<u>188,519</u>	<u>6,562</u>	<u>195,081</u>	<u>225,200</u>	<u>5,560</u>	<u>230,760</u>
<b>Geographical markets</b>						
Hong Kong	143,079	6,562	149,641	115,733	5,560	121,293
Mainland China	25,235	–	25,235	87,598	–	87,598
Other countries/regions	<u>20,205</u>	<u>–</u>	<u>20,205</u>	<u>21,869</u>	<u>–</u>	<u>21,869</u>
Total revenue from contracts with customers	<u>188,519</u>	<u>6,562</u>	<u>195,081</u>	<u>225,200</u>	<u>5,560</u>	<u>230,760</u>
<b>Timing of revenue recognition</b>						
Goods transferred at a point in time	188,519	–	188,519	225,200	–	225,200
Services transferred over time	–	6,562	6,562	–	5,560	5,560
Total revenue from contracts with customers	<u>188,519</u>	<u>6,562</u>	<u>195,081</u>	<u>225,200</u>	<u>5,560</u>	<u>230,760</u>



## Other income and gains

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Government grants*	5,213	5,757
Fair value gain on financial assets at fair value through profit or loss	325	200
Bank interest income	284	264
Others	234	1,678
	<u>6,056</u>	<u>7,899</u>

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

## 6. LOSS BEFORE TAX

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cost of inventories sold	<b>80,385</b>	77,688
Cost of services provided	<b>2,771</b>	2,967
Depreciation of property, plant and equipment	<b>9,413</b>	16,494
Depreciation of right-of-use assets	<b>9,325</b>	10,076
Amortisation of other intangible assets	<b>2,646</b>	1,738
Loss on termination of right-of-use assets	<b>246</b>	–
Research and development costs*	<b>9,625</b>	8,965
Lease payments not included in the measurement of lease liabilities:		
Land and buildings	<b>1,999</b>	2,151
Auditors' remuneration	<b>1,423</b>	1,098
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	<b>38,632</b>	38,981
Pension scheme contributions	<b>4,148</b>	4,253
Share option expenses ( <i>note 17(a)</i> )	<b>16</b>	39
Equity-settled share award expenses ( <i>note 17(b)</i> )	<b>–</b>	15
	<b>42,796</b>	43,288
Foreign exchange difference, net**	<b>(66)</b>	867
Fair value loss on biological assets, net	<b>6,683</b>	14,066
Impairment/(reversal of impairment) loss on trade and bill receivables, net	<b>46</b>	(2,060)
(Write-back)/write-down of inventories to net realisable value***	<b>(915)</b>	230

\* *HK\$1,186,000 (six months ended 30 June 2022: HK\$902,000) disclosed in the item of "Depreciation" and HK\$3,359,000 (six months ended 30 June 2022: HK\$3,556,000) disclosed in the item of "Employee benefit expenses" were also included in "Research and development costs" for the six months ended 30 June 2023.*

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

\*\*\* *The write-back or 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

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% (2022: 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 (2022: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

U.S. profits tax has been provided at the federal rate of 21.0% and the state rate of 8.8% as well as Japan profits tax has been provided at the rate of 23.2% on the estimated assessable profits arising in the respective jurisdictions during the six months ended 30 June 2023 and 2022.

The statutory tax rate of the Group in respect of its operation in Mainland China is 25.0% (2022: 25.0%). The Group's PRC subsidiary, PuraPharm (Nanning) Pharmaceuticals Co., Limited, is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15.0% (2022: 15.0%). According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. PuraPharm (Guizhou) Chinese Medicine 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 2023 and 2022 and the preferential income tax rate was 0.0%.

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current	2,035	5,329
Deferred	(874)	(125)
Total tax charge for the period	<u>1,161</u>	<u>5,204</u>

## 8. DIVIDENDS

No interim dividend was proposed for the six months ended 30 June 2023 and 2022.

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

### (a) Basic

Basic loss per share is calculated by dividing the loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2023 excluding ordinary shares purchased by the Group and held for Award Scheme.

	Six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Loss attributable to the owners of the parent ( <i>HK\$'000</i> )	<u>(37,675)</u>	<u>(39,903)</u>
Number of issued shares on 1 January	395,897,275	394,892,942
Exercise of share options	–	166,464
Adjustment for vested shares under share award scheme	<u>(844,335)</u>	<u>(950,438)</u>
Weighted average number of ordinary shares in issue during the period	<u>395,052,940</u>	<u>394,108,968</u>
Basic loss per share ( <i>expressed in HK cents per share</i> )	<u>(9.54)</u>	<u>(10.12)</u>

### (b) Diluted

The Group had no potentially dilutive ordinary shares in issue for share options and share award scheme during the six months ended 30 June 2023 and 2022 as they had an anti-dilutive effect on the basic loss per share amounts presented.

## 10. GOODWILL

	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Audited)
At 1 January	20,993	20,993
Impairment recognises during the period/year	—	—
At 30 June/31 December	<u>20,993</u>	<u>20,993</u>

### Impairment testing of goodwill

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

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

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

	30 June 2023 <i>HK\$'000</i> (Unaudited)	31 December 2022 <i>HK\$'000</i> (Audited)
Chinese herbal products CGU	13,705	13,705
SODX CGU	<u>7,288</u>	<u>7,288</u>
	<u>20,993</u>	<u>20,993</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 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.

## 11. BIOLOGICAL ASSETS

	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Audited)
As at 1 January	18,432	64,807
Addition during the period/year	12,363	8,517
Fair value loss on biological assets, net	(6,683)	(36,656)
Harvest during the period/year	(17,250)	(13,956)
Exchange realignment	(362)	(4,280)
	<hr/>	<hr/>
As at 30 June/31 December	6,500	18,432
Portion classified as non-current portion	—	—
	<hr/>	<hr/>
Current portion	<u>6,500</u>	<u>18,432</u>

The biological assets of the Group are raw Chinese herbs. The Group harvested raw Chinese herbs with a fair value less estimated cost to sell of HK\$17,250,000 (31 December 2022: HK\$13,956,000) during the Reporting Period.

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

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

- (i) the raw Chinese herbs will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;
- (ii) the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as life of raw Chinese herbs;
- (iii) estimated yields of raw Chinese herbs are estimated based on the amount planted, health condition, expected death rate, and production conversion rate (from the number of plants to Chinese herbs in kg) if necessary;

- (iv) the expected prices and price growth rate of raw Chinese herbs are estimated based on the historical average district prices; and
- (v) a market-derived discount rate of 13% (2022: 15%) is applied to the projection of the Periodic Cash Flow.

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

## 12. TRADE AND BILLS RECEIVABLES

	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Trade receivables	<b>127,422</b>	163,811
Bills receivables	<b>4,661</b>	18,346
	<b>132,083</b>	182,157
Less: impairment of trade and bills receivables	<b>(48,821)</b>	(50,291)
	<b>83,262</b>	131,866

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:

	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Within 1 month	<b>30,300</b>	83,781
1 to 3 months	<b>11,512</b>	6,720
3 to 6 months	<b>13,532</b>	4,863
6 months to 1 year	<b>21,256</b>	28,794
over 1 year	<b>6,662</b>	7,708
	<u><b>83,262</b></u>	<u>131,866</u>

### 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Prepayments	<b>43,502</b>	31,052
Prepayment for acquisition of a joint venture	–	780
Right of return assets	<b>5,937</b>	5,581
Deposit and other receivables	<b>30,054</b>	19,162
Amount due from related parties	<b>349</b>	228
	<u><b>79,842</b></u>	<u>56,803</u>
Less: impairment allowance	<u><b>(1,496)</b></u>	<u>(1,544)</u>
	<b>78,346</b>	55,259
Portion classified as non-current	<u><b>(4,419)</b></u>	<u>(5,370)</u>
Current portion	<u><b>73,927</b></u>	<u>49,889</u>



#### 14. 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:

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
Within 1 month	75,044	56,005
1 to 2 months	16,829	23,618
2 to 3 months	30,811	37,493
Over 3 months	<u>21,411</u>	<u>20,795</u>
	<b><u>144,095</u></b>	<b><u>137,911</u></b>

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.

## 15. INTEREST-BEARING BANK AND OTHER BORROWINGS

		30 June 2023 (Unaudited)	
	Effective interest rate (%)	Maturity	<i>HK\$'000</i>
<b>Current</b>			
Bank overdraft – secured	4.25-5.25	On demand	4,515
Bank loans – secured	1.95-7.00	On demand	150,676
Bank loans and other borrowings – secured	4.65-7.00	2024	133,812
Bank loans – unsecured	4.50	On demand	15,389
Bank loans – unsecured	3.65-3.80	2024	43,380
Other borrowings – secured	6.25	2024	6,464
Other borrowings – unsecured	8.50-10.00	2024	21,255
			<u>375,491</u>
<b>Non-current</b>			
Bank loans and other borrowings – secured	0.85-6.50	2025-2030	37,570
Other borrowings – secured	6.25	2025	4,789
Other borrowings – unsecured	6.50	2024-2027	2,013
			<u>44,372</u>
Total			<u><u>419,863</u></u>

	31 December 2022 (Audited)		
	Effective interest rate (%)	Maturity	<i>HK\$'000</i>
<b>Current</b>			
Bank overdraft – secured	4.25-5.25	On demand	7,710
Bank loans – secured	2.25-7.00	On demand	153,009
Bank loans and other borrowings – secured	2.31-8.00	2023	174,018
Bank loans – unsecured	4.50	On demand	18,965
Bank loans – unsecured	3.65-5.66	2023	23,117
Other borrowings – secured	8.21	2023	8,208
Other borrowings – unsecured	8.50-10.00	2023	25,113
			<u>410,140</u>
<b>Non-current</b>			
Bank loans and other borrowings – secured	0.85-5.88	2024-2030	41,879
Other borrowings – secured	6.25	2024-2025	6,801
			<u>48,680</u>
			<u><u>458,820</u></u>
		<b>30 June 2023</b>	31 December 2022
		<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
Analysed into:			
Bank loans and other borrowings payable:			
Within one year or on demand		<b>375,491</b>	410,140
In the second year		<b>10,213</b>	9,814
In the third to fifth years, inclusive		<b>19,355</b>	21,747
Beyond five years		<b>14,804</b>	17,119
		<u><b>419,863</b></u>	<u>458,820</u>

Interest-bearing bank and other borrowings are denominated in:

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
HK\$	<b>117,673</b>	127,444
RMB	<b>299,956</b>	328,749
JPY	<b>2,234</b>	2,627
	<b><u>419,863</u></b>	<b><u>458,820</u></b>

*Notes:*

- (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\$98,173,000 (31 December 2022: HK\$112,944,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$29,409,000 (31 December 2022: HK\$36,308,000) that is repayable after one year from the end of the Reporting Period has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.
- (b) As at 30 June 2023, the Group was not in compliance with certain loan covenants as stipulated in the agreements of the bank loans amounting to approximately HK\$103,780,000 (31 December 2022: HK\$128,804,000). Bank loans amounting to HK\$65,329,000 (31 December 2022: HK\$89,117,000), out of the HK\$103,780,000, are repayable on demand and have already been accounted for as current liabilities; and the remaining balance of HK\$38,451,000 (31 December 2022: HK\$39,687,000) which are repayable beyond 12 months, have already been accounted for as current liabilities.
- (c) As at 30 June 2023, the Group’s bank facilities including overdraft were amounting to HK\$506,996,000 (31 December 2022: HK\$543,657,000) of which HK\$419,863,000 (31 December 2022: HK\$458,820,000) had been utilised.

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

	<b>Carrying value</b>	
	<b>30 June 2023 <i>HK\$'000</i> (Unaudited)</b>	31 December 2022 <i>HK\$'000</i> (Audited)
Property, plant and equipment	172,757	177,759
Right-of-use assets	36,149	37,669
Financial assets at fair value through profit or loss	19,061	18,736
Inventories	44,980	46,425
Trade and bills receivables	36,481	58,255
	<u>309,428</u>	<u>338,844</u>

## 16. SHARE CAPITAL

	<b>30 June 2023 <i>HK\$'000</i></b>	31 December 2022 <i>HK\$'000</i>
Authorised:		
50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	<u>38,750,000</u>	<u>38,750,000</u>
Issued and fully paid:		
395,897,275 (31 December 2022: 395,897,275) ordinary shares of US\$0.1 (HK\$0.775) each	<u>306,820</u>	<u>306,820</u>

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

	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 2022	394,892,941	306,042	221,189	527,231
Share options exercised	1,004,334	778	315	1,093
Vesting of share award scheme	<u>–</u>	<u>–</u>	<u>67</u>	<u>67</u>
At 31 December 2022, 1 January 2023 and 30 June 2023	<u>395,897,275</u>	<u>306,820</u>	<u>221,571</u>	<u>528,391</u>

## 17. 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. The exercise price and the number of shares were adjusted upon completion of the Rights Issue on 2 March 2020.

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 have not accepted 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.

On 29 December 2022, the Board has resolved to grant share options to certain Directors of the Company, entitling them to subscribe for a total of 7,700,000 ordinary shares of the Company at the exercise price of HK\$1.292 per share, conditional upon the grantee accepting the grant.

The following share options were outstanding under the Option Scheme:

**As at 30 June 2023**

	<b>Weighted average exercise price HK\$ (Unaudited)</b>	<b>Number of options '000 (Unaudited)</b>
At 1 January 2023 and 30 June 2023	<u><u>1.35</u></u>	<u><u>24,029</u></u>

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

Number of options	Exercise price	Vesting date	Exercise period
3,011,859	HK\$2.3*	10 May 2020	From vesting date to 9 May 2029
3,011,859	HK\$2.3*	10 May 2021	From vesting date to 9 May 2029
132,853	HK\$2.3*	10 May 2022	From vesting date to 9 May 2029
132,853	HK\$2.3*	10 May 2023	From vesting date to 9 May 2029
4,417,667	HK\$0.8	23 July 2021	From vesting date to 23 July 2030
5,422,000	HK\$0.8	23 July 2022	From vesting date to 23 July 2030
200,000	HK\$0.8	23 July 2023	From vesting date to 23 July 2030
3,850,000	HK\$1.292	29 December 2023	From vesting date to 28 December 2032
<u>3,850,000</u>	HK\$1.292	29 December 2024	From vesting date to 28 December 2032
<u><u>24,029,091</u></u>			



**As at 30 June 2022**

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

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

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

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

Details of the share option expenses of the Group during the six months ended 30 June 2023 and 2022 is listed as below:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Share option expenses recognized during the period	<b>2,147</b>	606
Forfeited during the period	<u>–</u>	<u>(479)</u>
Net share option expenses recognized during the period	<b><u>2,147</u></b>	<u>127</u>
Less: Included in directors' remuneration	<u>(2,131)</u>	<u>(88)</u>
Employee benefit expenses	<b><u>16</u></b>	<u>39</u>

At the end of the Reporting Period, the Company had 24,029,091 (six months ended 30 June 2022: 16,329,001) share options outstanding under the Scheme, which represented approximately 6.1% (six months ended 30 June 2022: 4.1%) of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 24,029,091 (six months ended 30 June 2022: 16,329,001) additional ordinary shares of the Company and additional equity amount of HK\$32,442,000 (six months ended 30 June 2022: HK\$22,493,000) (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.

***Purpose of the Award Scheme***

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.

### ***Eligible Award Participants of the Award Scheme***

The Eligible Award Participants of the Award Scheme are employees and non-executive Directors 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, but excluding any employees and non-executive Directors of any member of the Group who has tendered his/her resignation or who has been given a notice of dismissal by the Company and/or the relevant member of the Group.

### ***Total number of shares available to be granted***

The Award Scheme does not involve any issue of new shares.

The Group has set up a trust (the “**Share Award Scheme Trust**”) for the purpose of administering the Award Scheme by a professional trustee (the “**Trustee**”). The Share Award Scheme Trust will acquire the Shares from the Stock Exchange, with a maximum amount of funds to be allocated by the Board, and hold such Shares until they are vested. Unless early terminated by the Board, the Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date.

The Board has 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 2023, the Share Award Scheme Trust held 844,335 shares (the “**Award Shares**”) (31 December 2021: 844,335 Award Shares), which were available to be granted to the Eligible Award Participants, representing approximately 0.2% of the issued shares as at the date of this announcement. During the six months ended 30 June 2023, no share (2022: nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and no shares (2022: nil) shares were vested on during the six months ended 30 June 2023.

The Group recognised a net share award expense of HK\$39,000 for the six months ended 30 June 2023 (2022: HK\$39,000).

### ***Maximum Entitlement of the Eligible Award Participants***

The Board may, from time to time, at its absolute discretion select any Eligible Award Participant for participation in the Scheme as a selected participant (the “**Selected Participant**”) and determine the number of Awarded Shares to be awarded to the respective Selected Participants, the terms and conditions before the Awarded Shares may be vested and other related matters as expressly provided under the Award Scheme.

The Board shall not make any further grant of award of shares under the Award Scheme such that the total number of shares granted under the Scheme will exceed 5% of the total number of issued shares as of 22 February 2016, being the date of which the Award Scheme was adopted.

***Vesting Period of the Awarded Shares***

A Selected Participant shall be entitled to receive the Awarded Shares held by the Trustee in accordance with the vesting schedule upon when the Selected Participant has satisfied all vesting conditions specified by the Board at the time of making the award. Vesting of the Shares will be conditional on the Selected Participant remaining a director or employee of the Group until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee. There is no exercise period in relation to the Awarded Shares.

***Amount payable on acceptance of the Awarded Shares***

The Board shall be at its discretion entitled to determine the amount payable on acceptance of the Awarded Shares. There is no exercise price or purchase price of the Awarded Shares under the Award Scheme.

***Remaining life of the Award Scheme***

The Scheme shall terminate on the earlier of the 10th anniversary date from 22 February 2016 or such date of early termination as determined by the Board.

***Voting Rights***

The Trustee shall not exercise the voting rights in respect of any unvested Shares held under the Share Award Scheme Trust (including but not limited to the Awarded Shares, further shares acquired out of the income derived therefrom, the returned shares, any bonus shares and scrip shares).

***Awarded Shares***

During the 2023 Interim Period and up to the date of this announcement, there was no outstanding or unvested Awarded Shares under the Award Scheme.

During the 2023 Interim Period, no Award Shares were granted (2022: nil).

The number of Shares that may be issued in respect of options and Award Shares, if any, granted under all of the abovementioned share incentive schemes of the Company during the Reporting Period divided by the weighted average total issued share capital of the Company for the 2023 Interim Period is approximately 8.0% (31,789,294 shares divided by 395,897,275 shares).

### ***Shareholdings of Share Award Scheme Trust***

As at 30 June 2023, the Share Award Scheme Trust holds 844,335 (six months ended 30 June 2022: 844,335) shares of the Company. During the six months ended 30 June 2023, no share (six months ended 30 June 2022: Nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and no share was vested (six months ended 30 June 2022: 115,000).

### ***Granted Award shares***

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

On 25 August 2020, the board resolved to grant share awards in respect of a total of 1,000,000 shares to a director and this director was re-designated as a non-executive director in June 2021 and retired in March 2022. All of the awarded shares granted to this director were vested or forfeited at that time.

All of the awarded shares were vested or forfeited as at 30 June 2022 and no share has been awarded during the Reporting Period.

Summary of particulars of the Award Shares is as follows:

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

Details of the equity-settled share award expenses of the Group during the six months ended 30 June 2023 and 2022 is listed as below:

	Six months ended 30 June	
	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)
Gross amount of recognition share award expenses	-	49
Forfeited during the period	-	(10)
Net share award expenses recognised during the period	<u>-</u>	<u>39</u>
Less: Included in directors' remuneration	-	(24)
Employee benefit expenses	<u>-</u>	<u>15</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### PROSPECTS

As the impact of the COVID-19 pandemic gradually diminished, the restrictions on social distances in Hong Kong and the “Vaccine Pass” restrictions have fully relaxed in 2023. Since 6 February 2023, normal traveler clearance between Hong Kong and China has resumed, and the industrial chain and supply chain affected by the COVID-19 pandemic are therefore gradually recovering. During the post-pandemic era, consumers are paying more attention to individual health consumption, and the demand for healthcare products has continued to rise, especially in Hong Kong. At the same time, Chinese medicine granules are gradually gaining popularity due to their advantages such as easy to use and can be modified based on symptoms. The Group has been actively promoting a wide range of Chinese medicine products through different channels, thus generating more revenue for the Group.

On 19 April 2023, the National Administration of Traditional Chinese Medicine, in conjunction with a number of departments, issued the “14th Five-Year Plan for the Implementation of the Project of Promoting the Culture of Traditional Chinese Medicine”, promoting the deployment of construction of Chinese medicine culture during the “14th Five-Year Plan” period. The project will be based on the synergistic advancement in various aspects including research and development, education and popularization, protection and inheritance, innovation and development, and spread and exchange of knowledge, with the aim of further promoting the in-depth integration of traditional Chinese medicine into the daily life of the public, and guiding the enterprises of traditional Chinese medicine to combine with the modern technological means for the purpose of innovation and upgrading with the recognition and support from policies, enterprises and the community continue to create a favourable social atmosphere for the development of Chinese medicine enterprises, so as to promote the internationalization of Chinese medicine products. Meanwhile, the Hong Kong Government has also been committed to the development of traditional Chinese medicine, hoping to maximize the strengths and functions of traditional Chinese medicine and integrate Hong Kong into the overall development of traditional Chinese medicine in PRC. The Group is expected to continue to benefit from the dual guidance of the market and the policy.

As a leader in the concentrated Chinese medicine granules (“CCMG”) industry and the Chinese medicine clinics industry, the Group has been closely monitoring market development and operating steadily, and has actively made strategic deployments in different regions to expand its sales network and increase sales. The Group will continue to bolster its capabilities in the research and development and promotion of our high quality CCMG products and target the upscale segment. In parallel with the new national standard policies of Chinese medicine granules, the Group is expected to gain broad prospects both in volume and value growth. At the same time, the Group continued to optimize and upgrade the cloud-based consultation and management system launched by our Nong’s Chinese medicine clinic to provide comprehensive and detailed assistance and analysis to Chinese medicine practitioners and patients to support the services improvement of the Chinese medicine business in all aspects.

The Group recorded a revenue of HK\$195.1 million for the six months ended 30 June 2023 (“**2023 Interim Period**”), representing a decrease of HK\$35.7 million or 15.5% as compared to HK\$230.8 million in the corresponding period of last year. The Group recorded a net loss of HK\$37.7 million, representing a decrease in net loss of HK\$2.2 million or 5.6% as compared to a net loss of HK\$39.9 million in the corresponding period of last year, and such loss was mainly driven by the decrease in China CCMG sales. Despite the attributable losses, the Group’s continuing efforts in adopting a stringent cost control policy and improving our operations efficiency had ensured the Group had sufficient cash flow to maintain business.

With the complete reopening of the Hong Kong – Mainland border, the rapid recovery of the socio-economic environment as well as the gradual recovery of the research and development, production, supply and sales chains will help the Chinese medicine granules industry achieve further rapid growth. At the same time, China has introduced a number of policies to encourage and support the innovative development of pharmaceutical enterprises and promote the “Internet+” mode of operation, which will bring new positive developments to China’s pharmaceutical industry. Furthermore, during the post-pandemic era, consumers have become more health-conscious and demand for healthcare products has increased, which will bring more opportunities to the Group’s Chinese healthcare products segment.



With respect to the research, development and production of Chinese medicine, the Group will continue to bolster our capabilities in the research and development of our high quality CCMG products, develop innovative healthcare products featuring natural ingredients, enrich our product lines, improve product quality and continuously increase market share and sales. In the modernization of Chinese medicine, the Group will focus on online marketing and enhance our customer loyalty through the promotion of competitive products in light of the recovering retail market. Furthermore, the Group has continued to optimize the cloud-based consultation and management system launched by our Nong's Chinese medicine clinics, leveraged the medical consultation analytics platform to conduct evidence-based medical research and big data analytics of Chinese medicine consultations and prescription cases, so as to support the development of the Chinese medicine business in all aspects.

With respect to in-store retail business, the Group has always been committed to diversifying our developments. The Group has continued to optimize Nong's Chinese medicine clinics to provide modern Chinese medicine consultation services and enhanced the store network by using the store-for-store approach to meet the consumer needs. At the same time, the Group has seized opportunities to strengthen its efforts on promotion in the Greater Bay Area market and further boosted the sales of Chinese medicine granules and healthcare products by deploying an alliance network of small and medium sized clinics. Meanwhile, the Group has reasonably leveraged the successful experience of existing stores to open franchise chain stores and vigorously explored new opportunities in cross-border e-commerce in the Greater Bay Area, and proactively deployed itself in the Greater Bay Area market to open up the online and offline retail channels, with a view to further expanding its market share. Concurrently, the Group's newest flagship store in Central, Hong Kong "Nong's Special TCM Clinic and Acupuncture Centre (農本方特約中醫診所及針灸中心)" will help to further realize the breakthrough of its physical retail business. Through a wide spectrum of treatment services, complemented by high-end brands and quality customer services, the Group is committed to providing customers with the most professional, safe and effective range of Chinese medical treatment services. Looking ahead, against the backdrop of the rapid recovery of the Chinese medicine industry, the Group, relying on its strong research and development background and rich product portfolio, coupled with its highly efficient operation strategy and extensive sales network, strives to continuously launch high quality products through independent innovation to cater for the consumers' demand of the younger generations, promote revenue growth on all fronts and create long-term stable returns for our shareholders.

## FINANCIAL REVIEW

	Six months ended 30 June					
	2023		2022		Change	
	Revenue <i>HK\$'000</i>	% of total	Revenue <i>HK\$'000</i>	% of total	<i>HK\$'000</i>	%
China CCMG	22,311	11.5%	77,429	33.6%	(55,118)	(71.2%)
HK and overseas CCMG	106,755	54.7%	83,668	36.3%	23,087	27.6%
Chinese healthcare products	37,465	19.2%	38,309	16.6%	(844)	(2.2%)
Nong's® (農本方®) Chinese medicine clinics	25,554	13.1%	22,061	9.5%	3,493	15.8%
Plantation	2,996	1.5%	9,293	4.0%	(6,297)	(67.8%)
Total	<u>195,081</u>	<u>100.0%</u>	<u>230,760</u>	<u>100.0%</u>	(35,679)	(15.5%)
(Loss) for the period	(37,675)		(39,903)		2,228	(5.6%)

### China CCMG

During the 2023 Interim Period, the China CCMG market was significantly impacted by the implementation of the new national standards in November 2021. Therefore, the sales of CCMG in China was HK\$22.3 million, representing a decrease of HK\$55.1 million or 71.2% compared to HK\$77.4 million for the corresponding period in last year. The decrease in revenue from China CCMG business during the 2023 Interim Period was mainly attributable to (i) the hospitals and clinics delayed the purchase cycle and resumed in second quarter of 2023; and (ii) with the cost of CCMG produced under the prescribed national standards higher than before, the market still undergoing adjustment to adopt to the new higher pricing. As a result, the China CCMG sales business decreased especially in second quarter of 2023.

## **Hong Kong and overseas CCMG**

According to a market research performed in 2023, 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 Interim Period, the direct sales of CCMG products in Hong Kong was HK\$106.8 million, representing an increase of HK\$23.1 million or 27.6% compared to HK\$83.7 million for the corresponding period in last year. In the 2023 Interim Period, the Group has improved both the segment's turnover as well as the gross profit through high quality of customer service and stable supply of products, and due to Hong Kong market was not affected by the new national standards. Also, under the direction to coexist with COVID-19 since 2023, the efficacy of CCMG is more significant and consumers are more inclined to purchase traditional Chinese medicine for prevention and treatment of prolonged symptoms of COVID-19 and similar disease, which increased the demand of the CCMG products in Hong Kong market.

During the 2023 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<sup>®</sup> (農本方<sup>®</sup>) Chinese medicine clinics**

During the 2023 Interim Period, the Group's optimization of the clinic is substantially completed. With the 22 clinics operated in Hong Kong as at 30 June 2023, which is the same as at 31 December 2022, the revenue generated by the Group's Nong's<sup>®</sup> (農本方<sup>®</sup>) Chinese medicine clinics through the sales of CCMG products and provision of Chinese medical diagnostic services increased to HK\$25.6 million by HK\$3.5 million or 15.8% compared to HK\$22.1 million for the corresponding period in last year.

The revenue of Nong's clinics segment increased during the 2023 Interim Period attributable to the combined effect of more services was provided due to the strengthened clinic network and surge in demand of clinic services as a result of the spread of COVID-19 and flu.

The Group is seeking to explore the market opportunity in Great Bay Area by opening a clinic there by leveraging the Group's brand awareness in Hong Kong. The Group will continue to review and improve the performance of the existing clinic portfolio and proactively negotiate with the landlords on rental reduction in order to improve clinic profitability.

## Chinese healthcare products

	Six months ended 30 June					
	2023		2022		Change	
	Revenue	% of	Revenue	% of	Change	
	<i>HK\$'000</i>	total	<i>HK\$'000</i>	total	<i>HK\$'000</i>	%
U.S.	15,577	41.6%	14,633	38.2%	944	6.4%
Japan	4,248	11.3%	4,149	10.8%	99	2.4%
Hong Kong	17,640	47.1%	19,527	51.0%	(1,887)	(9.7%)
	<u>37,465</u>	<u>100.0%</u>	<u>38,309</u>	<u>100.0%</u>	<u>(844)</u>	<u>(2.2%)</u>

During the 2023 Interim Period, revenue from sales of Chinese healthcare products in the U.S., Japan and Hong Kong markets was HK\$37.5 million in aggregate, representing a decrease of HK\$0.8 million or 2.2% as compared to HK\$38.3 million in the corresponding period in last year.

Among the Group's Chinese healthcare products segment, the sales in the Hong Kong market recorded a decrease of HK\$1.9 million which is mainly attributable to the customers' reaction to the price increment effective in 2023, sales of Chinese healthcare products slowed down in the first quarter of 2023 as consumers stocked up in the last quarter of 2022 in Hong Kong, this drop in sales was partly offset by the mild increase of sales revenue in U.S. market as a whole.

The Group has invested more resources during the 2023 Interim Period in the marketing and advertising of Chinese healthcare products, the expenses of which are recognized as an expense but should benefit the sales of the Group's various products in near future.

As the COVID-19 pandemic has lasted for more than three years and under the general trend for the society to coexist with COVID-19, the Group believes that consumers' health awareness will be increased and the growth in demand for healthcare products will render further opportunities for the Group's Chinese healthcare products segment. The Group will continue to proactively develop new and innovative healthcare products to enrich the products portfolio, devote more focus to market the Group's healthcare products through the online platform in order to reach the PRC and overseas markets with great growth potential.

## Plantation

For the 2023 Interim Period, the upstream plantation segment contributed HK\$3.0 million to the Group's overall revenue, representing a decrease from HK\$9.3 million recorded in the corresponding period in last year by HK\$6.3 million or 67.8%. The revenue from the plantation segment was mainly derived from the plantation and trading of raw Chinese herbs.

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

## Profitability

	Six months ended 30 June		Change
	2023	2022	
	HK\$'000	HK\$'000	
Revenue	195,081	230,760	(35,679)
Cost of sales	<u>(83,156)</u>	<u>(80,655)</u>	<u>(2,501)</u>
Gross profit	<u>111,925</u>	<u>150,105</u>	<u>(38,180)</u>
Gross profit margin	<u>57.4%</u>	<u>65.0%</u>	

The Group's gross profit margin for the 2023 Interim Period was 57.4%, representing a decrease of 7.6 percentage points, as compared to 65.0% in the corresponding period in last year. The decrease in gross profit margin was due to the combined effect of the decrease in gross profit margin in China CCMG segment because of the cost of CCMG produced under the new standards was higher than before and the market is still undergoing on adjustment to the adoption of the higher pricing and the decrease in gross profit margin in plantation segment due to the discounted sales of slow-moving Chinese raw herbs in Guizhou.

## **Other income and gains**

The Group's other income and gains mainly comprised of government grants, gain from sale of equipment and accessories, financial assets at fair value through profit or loss and interest income. For the 2023 Interim Period, the Group's other income and gain was HK\$6.1 million, representing a decrease of HK\$1.8 million or 23.3% as compared to HK\$7.9 million for the corresponding period in last year.

The decrease in other income and gains was mainly due to a decrease in government grants received in the 2023 Interim Period compared to the corresponding period in last year.

## **Selling and distribution expenses**

The Group's selling and distribution expenses mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses and sales and marketing departmental expenses. For the 2023 Interim Period, the Group's selling and distribution expenses was HK\$50.2 million, representing a decrease of HK\$32.2 million or 39.1% as compared to HK\$82.4 million for the corresponding period in last year. The decrease was mainly attributable to decrease in the PRC marketing expenses including logistic arrangement, conducting market development activities, providing after-sales services and maintaining customer relationships in Mainland China as the China CCMG market was undergoing the adoption to the new national standards and marketing budget was reduced conservatively.

For the 2023 Interim Period, selling and distribution expenses as a percentage to revenue decreased from 35.7% for the corresponding period in last year to 25.7%. With the significant sales drop in the 2023 Interim Period, the Group has reacted promptly and successfully controlled some of the variable marketing expenses during 2023 Interim Period.

## Administrative expenses

	Six months ended 30 June		Change	
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	<i>HK\$'000</i>	%
Clinics operating expenses	<b>17,921</b>	16,831	1,090	6.5%
Research and development costs	<b>9,625</b>	8,965	660	7.4%
General administrative expenses	<b>53,061</b>	54,210	(1,149)	(2.1%)
Total administrative expenses	<b><u>80,607</u></b>	<b><u>80,006</u></b>	601	0.8%

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

For the 2023 Interim Period, the Group's operating expenses for clinics was HK\$17.9 million, representing an increase of HK\$1.1 million or 6.5% as compared to HK\$16.8 million for the corresponding period last year. The increase was mainly attributable to the increase in rental expense for Hong Kong clinics and the increase in commission of the Chinese medicine practitioners in clinics which was in line with the increase in revenue in the clinics segment. The number of clinics in operation in Hong Kong remained at 22 as at 30 June 2023 which is the same as at 31 December 2022.

The research and development costs for the 2023 Interim Period increased by HK\$0.7 million or 7.4%, mainly due to the increase in the testing and sampling fee as products need to be registered and filed with the requirement of the new standards during the 2023 Interim Period. The Group's general administrative expenses for the 2023 Interim Period decreased by HK\$1.1 million or 2.1%, which was mainly due to the decrease in legal and professional fee as there were discounts in the professional fees during 2023 Interim Period.

## **Other expenses**

The Group's other expenses mainly comprised of fair value loss on biological assets, loss on disposal of property, plant and equipment, net foreign exchange loss and voluntary charity donation. For the 2023 Interim Period, the Group's other expenses was HK\$10.3 million, representing a decrease of HK\$8.1 million or 44.0% as compared to HK\$18.4 million for the corresponding period in last year. The significant decrease was mainly attributable to the decrease of net fair value loss on biological assets.

## **Finance costs**

For the 2023 Interim Period, the Group's finance costs amounted to HK\$13.3 million, representing a decrease of HK\$0.7 million or 5.0% as compared to HK\$14.0 million for the corresponding period in last year. The decrease was mainly attributable to the decrease of average loan balance during the 2023 Interim Period and partially offset by the increase in interest expenses due to the increase in interest rate.

## **Income tax expense**

During the 2023 Interim Period, the Group's income tax expenses decreased from HK\$5.2 million in the corresponding period in last year to HK\$1.2 million for the 2023 Interim Period. The income tax expense arose from the profitable subsidiaries. The decrease was mainly due to the better tax planning in the Group during the 2023 Interim Period and less income tax expense was incurred under the China CCMG segment.

## **Loss for the period**

As a result of the foregoing, the Group recorded a net loss for the 2023 Interim Period of HK\$37.7 million as compared with the net loss of HK\$39.9 million during the corresponding period in last year. Such decrease in net loss is mainly attributable to sales growth in Hong Kong and overseas CCMG segment, offset by the slow down of sales in China CCMG segment.

## **CAPITAL EXPENDITURES**

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. During the 2023 Interim Period, the total capital expenditure was HK\$10.2 million (six months ended 30 June 2022: HK\$43.9 million). The capital expenditures during the 2023 Interim Period was mainly incurred for new production equipment for meeting the new national standards in the Nanning factory.



## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2023, the Group had net current liabilities of HK\$206.5 million (31 December 2022: net current liabilities of HK\$179.4 million), which included cash and cash equivalent of HK\$48.1 million (31 December 2022: HK\$75.8 million) and interest-bearing bank and other borrowings amounting to HK\$375.5 million (31 December 2022: HK\$410.1 million). As at 30 June 2023, the Group's unused bank facilities including overdraft amounted to HK\$87.1 million (31 December 2022: HK\$84.8 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 2023, the Group's credit risk is primarily attributable to trade receivables, deposits, bank deposits with original maturity over three months and bank balances and cash. As at 30 June 2022 and 2023, 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 2023, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank and other borrowings by total equity, was 1.9 (31 December 2022: 1.8). The gearing ratio remaining stable during the six months ended 30 June 2023 was mainly as a result of the decrease in interest-bearing bank and other borrowings which is offset by the decrease in the equity base of the Company after the reduction of retained profits being recognized.

## **EXCHANGE RISK**

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

## HUMAN RESOURCES

As at 30 June 2023, the Group had a total of 650 employees (31 December 2022: 663 employees). During the six months ended 30 June 2023, total staff costs excluding Directors' remuneration was HK\$42.8 million (six months ended 30 June 2022: HK\$43.3 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.

## PLEDGE OF ASSETS

The following assets were pledged as security for interest-bearing bank and other borrowings as at 31 December 2022 and 30 June 2023:

	Carrying value	
	30 June 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
Property, plant and equipment	172,757	177,759
Right-of-use assets	36,149	37,669
Financial assets at fair value through profit or loss	19,061	18,736
Inventories	44,980	46,425
Trade and bills receivables	36,481	58,255
	<u>309,428</u>	<u>338,844</u>

## CAPITAL COMMITMENT

The Group had the following capital commitment as at 31 December 2022 and 30 June 2023:

	<b>30 June 2023 <i>HK\$'000</i></b>	31 December 2022 <i>HK\$'000</i>
Land and Buildings	<b>12,684</b>	24,245
Plant and machinery	<u>–</u>	<u>196</u>
	<b><u>12,684</u></b>	<b><u>24,441</u></b>

## 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 2023.

## CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 30 June 2023.

## 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 2023, the Group had utilised approximately HK\$282.0 million of the Net Proceeds in accordance with the proposed applications set out in the Company’s listing prospectus, as follows:

Use	Total approximate amount of Net Proceeds <i>(in HK\$ million)</i>	Approximate percentage of Net Proceeds	Approximate amount utilised as at 30 June 2023 <i>(in HK\$ million)</i>	Approximate amount utilised during the 2023 Interim Period <i>(in HK\$ million)</i>	Approximate amount unutilised as at 30 June 2023 <i>(in HK\$ million)</i>	Expected timeline for intended use
To expand manufacturing facilities and enhance existing production lines	86.5	30%	86.5	—	—	—
To establish new Nong’s® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	72.1	—	—	—
To expand distribution network into new target cities in the PRC	57.7	20%	57.7	—	—	—
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	36.9	—	6.4	by December 2023
Additional working capital of the Group	28.8	10%	28.8	—	—	—
	<u>288.4</u>	<u>100%</u>	<u>282.0</u>	<u>—</u>	<u>6.4</u>	

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

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

## **SHARE OPTION SCHEME**

On 12 June 2015, the Share Option Scheme was adopted by the then Shareholders and will be valid and effective for a period of 10 years from the adoption date on 12 June 2015 and shall expire on the tenth anniversary (i.e. 12 June 2025). The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group’s operations. Under the terms of the Share Option Scheme, the Board may, at its discretion, grant share options to, among others, any full-time employee and any Director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors.

The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share on the date of grant. Any share options granted under the Share Option Scheme shall lapse in any event not later than ten years from the date of grant. A nominal value of HK\$1.00 is payable on acceptance of each grant of share options. The period within which payments or calls must or maybe made or loans for such purposes must be repaid for the amount payable on acceptance of the option under the rules of Share Option Scheme is 30 days after the relevant date of grant of the options.

As at 30 June 2023, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 16,329,091 shares.

During the 2023 Interim Period, no options were granted by the Board. No options were exercised, lapsed or cancelled during the 2023 Interim Period.

As at 1 January 2023 and 30 June 2023, the total number of share which may be issued upon the exercise of all options granted under the Share Option Scheme was 24,029,091 and 24,029,091 shares. Since as at 1 January 2023 and 30 June 2023 that the number of issued shares of the Company was 395,897,275 shares and 395,897,275 shares, the total number of share available for issue under the Share Option Scheme represents approximately 6.07% and 6.07% of the total number of issued shares of the Company.

As at 1 January 2023 and 30 June 2023, the total number of share available for issue under the Share Option Scheme was 31,789,294 and 31,789,294 shares, respectively. Since as at 1 January 2023 and 30 June 2023 that the number of issued shares of the Company was 395,897,275 shares and 395,897,275 shares, the total number of share available for issue under the Share Option Scheme represents approximately 8.0% and 8.0% of the total number of issued shares of the Company, respectively. There was no service provider sublimit set for the Share Option Scheme.

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

Grantees	Name of Director	Grant date	Exercise price	Vesting date	As at	Number of	Exercised	Lapsed	As at			
					1 January 2023	options granted during the 2023 Interim Period	during the 2023 Interim Period	during the 2023 Interim Period	30 June 2023			
Directors	Mr. Chan Yu Ling, Abraham	9 May 2019	HK\$2.3	10 May 2020	1,085,228	—	—	—	1,085,228			
				10 May 2021	1,085,228	—	—	—	1,085,228			
		24 Jul 2020	HK\$0.8	23 Jul 2021	1,740,000	—	—	—	1,740,000			
				23 Jul 2022	1,740,000	—	—	—	1,740,000			
				29 Dec 2022	1,925,000	—	—	—	1,925,000			
				29 Dec 2024	1,925,000	—	—	—	1,925,000			
	Ms. Man Yee Wai, Viola	9 May 2019	HK\$2.3	10 May 2020	354,275	—	—	—	354,275			
				10 May 2021	354,275	—	—	—	354,275			
			24 Jul 2020	HK\$0.8	23 Jul 2021	1,740,000	—	—	—	1,740,000		
					23 Jul 2022	1,740,000	—	—	—	1,740,000		
					29 Dec 2022	1,925,000	—	—	—	1,925,000		
					29 Dec 2024	1,925,000	—	—	—	1,925,000		
	Mr. Norimoto Hisayoshi	9 May 2019	HK\$2.3	10 May 2020	44,285	—	—	—	44,285			
				10 May 2021	44,285	—	—	—	44,285			
				10 May 2022	44,284	—	—	—	44,284			
10 May 2023				44,284	—	—	—	44,284				
		24 Jul 2020	HK\$0.8	23 Jul 2021	66,667	—	—	—	66,667			
				23 Jul 2022	66,667	—	—	—	66,667			
				23 Jul 2023	66,666	—	—	—	66,666			
Sub-total for Directors				17,916,144	—	—	—	17,916,144				
	Mr. Chan Kin Man, Eddie (retired on 28 May 2021)	9 May 2019	HK\$2.3	10 May 2020	1,085,228	—	—	—	1,085,228			
				10 May 2021	1,085,228	—	—	—	1,085,228			
		24 Jul 2020	HK\$0.8	23 Jul 2021	871,000	—	—	—	871,000			
				23 Jul 2022	871,000	—	—	—	871,000			
				Dr. Tsoi Kam Biu, Alvin (retired on 28 May 2021)	9 May 2019	HK\$2.3	10 May 2020	354,275	—	—	—	354,275
							10 May 2021	354,275	—	—	—	354,275
	24 Jul 2020	HK\$0.8	23 July 2022	871,000	—	—	—	871,000				
Sub-total				5,492,006	—	—	—	5,492,006				

Grantees	Name of Director	Grant date	Exercise price	Vesting date	As at	Number of	Exercised	Lapsed	As at
					1 January 2023	options granted during the 2023 Interim Period	during the 2023 Interim Period	during the 2023 Interim Period	30 June 2023
Employees		9 May 2019	HK\$2.3	10 May 2020	88,570	—	—	—	88,570
				10 May 2021	88,568	—	—	—	88,568
				10 May 2022	88,568	—	—	—	88,568
				10 May 2023	88,568	—	—	—	88,568
					354,274	—	—	—	354,274
		24 July 2020	HK\$0.8	23 July 2022	133,333	—	—	—	133,333
				23 July 2023	133,334	—	—	—	133,334
					266,667	—	—	—	266,667
Sub-total for Employees				620,941	—	—	—	620,941	
Total				24,029,091	—	—	—	24,029,091	

## 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”). Throughout the six months ended 30 June 2023, save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

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



For the six months ended 30 June 2023, the Directors were not aware of any business or interest of the Directors, the controlling shareholders, and their respective close associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

A deed of non-competition dated 16 June 2015 was entered into by the controlling shareholders in favour of the Company (for itself and as trustee for its subsidiaries), details of which are set out in the section headed “Relationship with our Controlling Shareholders” of the prospectus of the Company dated 25 June 2015. The Directors are of the view that the controlling shareholders have been in compliance with the deed of non- competition during the 2023 Interim Period.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “**Audit Committee**”) on 12 June 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.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 results of the Group for the six months ended 30 June 2023 contained in this announcement have 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 2023 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 2023.

## **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 2023.

## **PUBLICATION OF INTERIM REPORT**

The interim report of the Company for the six months ended 30 June 2023 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](http://www.hkexnews.hk) and the website of the Company at [www.purapharm.com](http://www.purapharm.com) in due course.

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

Hong Kong, 29 August 2023

*As at the date of this announcement, the executive Directors of the Company are Mr. Chan Yu Ling, Abraham, Ms. Man Yee Wai, Viola and Dr. Norimoto Hisayoshi; the non-executive Director of the Company is Mr. Leung Stephen Kwok Keung; 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.*