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PuraPharm

PURAPHARM CORPORATION LIMITED

培力農本方有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1498)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

	Year ended 31 December					
	2023 <i>HK\$'000</i>	% of total	2022 <i>HK\$'000</i>	% of total	Change <i>HK\$'000</i> %	
Revenue						
– China concentrated Chinese medicine granule	50,807	12.5%	117,751	26.3%	(66,944)	(56.9%)
– Hong Kong concentrated Chinese medicine granule	208,428	51.2%	192,094	42.9%	16,334	8.5%
– Chinese healthcare products	81,987	20.2%	78,858	17.6%	3,129	4.0%
– Nong's® (農本方) Chinese medicine clinics	53,727	13.2%	46,112	10.3%	7,615	16.5%
– Plantation	11,910	2.9%	13,254	2.9%	(1,344)	(10.1%)
	<u>406,859</u>	<u>100.0%</u>	<u>448,069</u>	<u>100.0%</u>	<u>(41,210)</u>	<u>(9.2%)</u>
Gross profit	216,629		262,704		(46,075)	(17.5%)
Net loss for the year	(106,081)		(120,214)			

The board (the “**Board**”) of directors (the “**Directors**”) of PuraPharm Corporation Limited (the “**Company**”) hereby presents the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2023 (the “**Reporting Period**”) with the comparative audited figures as at 31 December 2022 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	4	406,859	448,069
Cost of sales		<u>(190,230)</u>	<u>(185,365)</u>
Gross profit		216,629	262,704
Other income and gains	4	15,151	15,990
Selling and distribution expenses		(91,658)	(157,383)
Administrative expenses		(171,520)	(157,915)
Share of loss of a joint venture		(145)	–
Impairment loss on property, plant and equipment		(12,804)	(3,022)
Impairment loss on goodwill		(3,049)	–
Impairment loss on financial assets, net		(5,034)	(11,906)
Other expenses		(22,475)	(43,467)
Finance costs		<u>(27,407)</u>	<u>(24,183)</u>
LOSS BEFORE TAX	5	(102,312)	(119,182)
Income tax expense	6	<u>(3,769)</u>	<u>(1,032)</u>
LOSS FOR THE YEAR		<u>(106,081)</u>	<u>(120,214)</u>
Attributable to:			
Owners of the parent		<u>(106,081)</u>	<u>(120,214)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted			
– For loss for the year (expressed in HK cents per share)		<u>(26.85)</u>	<u>(30.47)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(106,081)</u>	<u>(120,214)</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(3,874)	(24,126)
Reclassification of reserve upon deregistration of a subsidiary	<u>611</u>	<u>–</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(3,263)</u>	<u>(24,126)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	<u>(109,344)</u>	<u>(144,340)</u>
Attributable to:		
Owners of the parent	<u>(109,344)</u>	<u>(144,340)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		291,552	319,763
Investment properties		4,309	4,434
Right-of-use assets		105,353	111,314
Goodwill		17,944	20,993
Other intangible assets		34,744	37,640
Investments in a joint venture		1,265	–
Financial assets at fair value through profit or loss		20,425	19,940
Prepayments for non-current assets		9,984	5,370
Deferred tax assets		8,819	11,047
		<hr/>	<hr/>
Total non-current assets		494,395	530,501
CURRENT ASSETS			
Inventories		175,597	172,380
Biological assets		–	18,432
Trade and bills receivables	<i>9</i>	80,870	131,866
Prepayments, other receivables and other assets		45,354	49,889
Tax recoverable		526	6,415
Restricted cash and pledged deposits		27,095	31,183
Cash and cash equivalents		20,126	75,831
		<hr/>	<hr/>
Total current assets		349,568	485,996
CURRENT LIABILITIES			
Trade and bills payables	<i>10</i>	146,379	137,911
Other payables and accruals		100,479	97,164
Interest-bearing bank and other borrowings	<i>11</i>	304,023	410,140
Lease liabilities		17,972	18,505
Tax payable		2,066	1,439
Government grants		170	247
		<hr/>	<hr/>
Total current liabilities		571,089	665,406
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(221,521)	(179,410)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		272,874	351,091
		<hr/> <hr/>	<hr/> <hr/>

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		272,874	351,091
NON-CURRENT LIABILITIES			
Other payables and accruals		14,044	14,248
Interest-bearing bank and other borrowings	<i>11</i>	81,093	48,680
Lease liabilities		21,682	25,832
Government grants		1,076	1,025
Deferred tax liabilities		1,743	3,017
		<hr/>	<hr/>
Total non-current liabilities		119,638	92,802
		<hr/>	<hr/>
Net assets		153,236	258,289
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>12</i>	306,820	306,820
Shares held for share award scheme		(2,859)	(2,859)
Reserves		(150,725)	(45,672)
		<hr/>	<hr/>
Total equity		153,236	258,289
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(102,312)	(119,182)
Adjustments for:			
Finance costs		27,407	24,183
Bank interest income	4	(293)	(475)
Foreign exchange difference, net	5	406	84
Loss on disposal of property, plant and equipment	5	354	–
Equity-settled share award and share option expenses		4,291	268
Depreciation of property, plant and equipment	5	21,711	23,840
Depreciation of right-of-use assets	5	21,522	19,690
Amortisation of intangible assets	5	5,358	5,131
Fair value loss on investment properties	5	63	1,619
Fair value loss/(gain) on financial assets at fair value through profit or loss	5	3	(174)
Fair value loss on biological assets	5	16,790	36,656
Loss/(gain) on disposal of right-of-use assets	5	932	(41)
Write-down of inventories to net realisable value	5	2,332	4,833
Impairment loss on goodwill	5	3,049	–
Impairment loss on property, plant and equipment	5	12,804	3,022
Impairment loss on trade and bills receivables	5	2,727	10,545
Impairment loss on prepayments, other receivables and other assets	5	2,307	1,361
Share of loss of a joint venture		145	–
		19,596	11,360

	2023	2022
	HK\$'000	HK\$'000
Decrease/(increase) in inventories	10,174	(8,711)
Increase in biological assets	(16,616)	(8,517)
Decrease in trade and bills receivables	47,085	105,452
Increase in prepayments, deposits and other receivables	(504)	(3,367)
Increase in trade and bills payables	10,466	9,607
Decrease in government grants	(8)	(2,045)
Increase/(decrease) in other payables and accruals	5,585	(7,079)
Decrease/(increase) in tax recoverable	5,837	(4,168)
	<hr/>	<hr/>
Cash generated from operations	81,615	92,532
Interest received	293	475
Hong Kong profits tax paid	(2,175)	(3,702)
Overseas profits tax paid	(66)	(742)
PRC profit taxes paid	(59)	(58)
	<hr/>	<hr/>
Net cash flows from operating activities	79,608	88,505
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of financial assets at fair value through profit or loss	–	(1,204)
Purchases of property, plant and equipment	(19,183)	(20,828)
Acquisition of right-of-use assets	–	(841)
Proceeds from disposal of property, plant and equipment	–	96
Proceeds from disposal of intangible assets	–	1
Additions to intangible assets	(2,478)	(1,889)
Decrease/(increase) in restricted cash and pledged deposits, net	4,088	(5,800)
Acquisition of a joint venture	(630)	(780)
	<hr/>	<hr/>
Net cash flows used in investing activities	(18,203)	(31,245)
	<hr/>	<hr/>

	2023	2022
	HK\$'000	HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares upon exercise of share options	–	803
Increase in director's loan	1,740	4,610
New bank loans and other borrowings	251,287	337,499
Repayment of bank loans and other borrowings	(318,338)	(340,830)
(Decrease)/increase in overdrafts	(7,710)	5,547
Principal portion of lease payments	(21,947)	(19,040)
Interest paid for lease liabilities	(1,789)	(1,526)
Interest paid for bank and other borrowings	(25,633)	(22,657)
	<u>(122,390)</u>	<u>(35,594)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
	(60,985)	21,666
Cash and cash equivalents at beginning of year	75,831	59,671
Effect of foreign exchange rate changes, net	5,280	(5,506)
	<u>20,126</u>	<u>75,831</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		
	20,126	75,831
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	20,126	75,831
	<u>20,126</u>	<u>75,831</u>
Cash and cash equivalents as stated in the statement of cash flows	20,126	75,831
	<u>20,126</u>	<u>75,831</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the year ended 31 December 2023, the Company and its subsidiaries (the “**Group**”) have been principally engaged in the research and development, production and sale of concentrated Chinese medicine granule (“**CCMG**”) products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and manufacture and sale of Traditional Chinese Medicine (“**TCM**”) decoction pieces (“**中藥飲片**”), as well as rendering of Chinese medical diagnostic services.

In the opinion of the board (the “**Board**”) of directors (the “**Directors**”) 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. Chan Yu Ling, Abraham (“**Mr. Abraham Chan**”), the founder of the Group.

2.1 BASIS OF PREPARATION

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

During the year ended 31 December 2023, the Group recorded a loss attributable to the owners of the Company of HK\$106.1 million. As at 31 December 2023, the Group had net current liabilities of HK\$221.5 million, cash and cash equivalents of HK\$20.1 million and short term borrowings of HK\$304.0 million, among which approximately HK\$93.2 million breaches of covenants were noted at the reported date. The above conditions indicated the existence of material uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the directors of the Company implemented or is in the process of implementing the following measures:

- (a) The Group continues to restructure their products mix, downsizing those non-profitable business operations and tightening overall cost control measures so as to attain profitable and positive cash flow operations;
- (b) As at 31 December 2023, among all of the Group's short term bank and borrowings, the aggregated revolving loans amounted to HK\$86.3 million. Although breaches of covenants were noted for some of the revolving loan facilities of HK\$36.9 million. Based on historical experiences, the respective banks continue to allow the Group to utilised their facilities while the Group continue to be able to drawn HK\$4.9 million of loans from these facilities subsequent to the year end date. The directors are also actively negotiating with the banks to revise the facilities covenants and consider it is highly probable that they could continue to draw down the unutilised bank facilities of HK\$105.5 million as at 31 December 2023 to rollover their revolving loans for another year;
- (c) As at 31 December 2023, breaches of covenants were noted for certain of the Group's term loans of HK\$56.3 million. Based on historical experiences, the banks will continue to allow the Group to repay the loans according to the original payment schedule. In addition, the directors are also actively negotiating with respective banks and other lenders to defer the repayment terms of some of their short-term loans and was able to extend the repayment schedule of short-term loans amounted to HK\$22.1 million to 2025 subsequent to year end date;
- (d) The Group had non-pledged long-term assets of HK\$152.8 million in the PRC as at 31 December 2023 and continue to seek for new borrowings. The Group was able to obtain new bank borrowings of HK\$11 million subsequent to year end date;
- (e) The Group is actively seeking potential investor to raise capital; and
- (f) The Group is seeking opportunities to dispose some of its assets and subsidiaries that are not related to their core business operations.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period over twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with the Group's internally generated funds and unutilised bank facilities, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2023 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

- (a) the successful renewal of the existing bank and other borrowings and continue to utilise their bank facilities to draw down new loans for repaying the respective due loans, or successful negotiation with the lenders for the extension for repayment terms of the Group's bank and other borrowings, or successful obtaining of additional new sources of financing in the foreseeable future as and when needed; and
- (b) the successful increase of the sales with higher margin so as to attain profitable and positive cash flow operations and timely taking measures to tighten operating cost.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 17	<i>Insurance Contracts</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 had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the consolidated financial statements.

Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{1, 4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ^{1, 4}
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to HKAS 21	<i>Lack of Exchangeability</i> ²

¹ Effective for annual periods beginning on or after 1 January 2024

² Effective for annual periods beginning on or after 1 January 2025

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

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

3. OPERATING SEGMENT INFORMATION

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

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

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

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

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2023 and 2022.

31 December 2023

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue (note 4):							
Sales to external customers	50,807	208,428	81,987	53,727	11,910	-	406,859
Intersegment sales	121,992	7,042	1,597	-	25,700	(156,331)	-
Total segment revenue	<u>172,799</u>	<u>215,470</u>	<u>83,584</u>	<u>53,727</u>	<u>37,610</u>	<u>(156,331)</u>	<u>406,859</u>
Segment results	(12,375)	74,729	(16,383)	1,160	(47,402)	-	(271)
<i>Reconciliations:</i>							
Interest income							293
Foreign exchange difference, net							(406)
Equity-settled share award and share option expenses							(4,291)
Finance costs (other than interest on lease liabilities)							(25,618)
Corporate and other unallocated expenses							(72,019)
Loss before tax							(102,312)
Income tax expense							(3,769)
Net Loss							<u>(106,081)</u>
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible asset	14,044	2,438	3,941	1,608	5,038	-	27,069
Depreciation of right-of-use asset	2,597	846	6,956	8,955	2,168	-	21,522
Write-down/(write-back) of inventories to net realisable value	1,234	(1,073)	1,413	-	758	-	2,332
Impairment/(reversal of impairment) loss on trade and bills receivables, net	(354)	(160)	328	-	2,913	-	2,727
Impairment loss on prepayments, other receivables and other assets	1,521	-	-	-	786	-	2,307
Loss on disposal of property, plant and equipment	354	-	-	-	-	-	354
Loss on disposal of right-of-use assets	932	-	-	-	-	-	932
Share of loss of a joint venture	-	-	145	-	-	-	145
Impairment loss on property, plant and equipment	-	-	-	-	12,804	-	12,804
Government grants	5,478	152	1,594	-	2,229	-	9,453
Capital expenditure*	<u>3,812</u>	<u>655</u>	<u>3,425</u>	<u>16,146</u>	<u>8,956</u>	<u>-</u>	<u>32,994</u>

31 December 2022

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue (note 4):							
Sales to external customers	117,751	192,094	78,858	46,112	13,254	–	448,069
Intersegment sales	124,501	7,311	417	–	76,276	(208,505)	–
Total segment revenue	242,252	199,405	79,275	46,112	89,530	(208,505)	448,069
Segment results	(23,246)	54,018	(2,032)	(5,735)	(54,109)	–	(31,104)
<i>Reconciliations:</i>							
Interest income							475
Foreign exchange difference, net							(84)
Equity-settled share award and share option expenses							(268)
Finance costs (other than interest on lease liabilities)							(22,657)
Corporate and other unallocated expenses							(65,544)
Loss before tax							(119,182)
Income tax expense							(1,032)
Net Loss							(120,214)
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible asset	16,415	2,519	3,728	913	5,396	–	28,971
Depreciation of right-of-use asset	3,269	350	6,642	7,509	1,920	–	19,690
Write-down of inventories to net realisable value	1,298	266	434	–	2,835	–	4,833
Impairment loss on trade and bills receivables, net	3,343	452	374	224	6,152	–	10,545
Impairment loss on prepayments, other receivables and other assets	580	–	–	–	781	–	1,361
Impairment loss on property, plant and equipment	–	–	–	–	3,022	–	3,022
Gain on disposal of right-of-use assets	(41)	–	–	–	–	–	(41)
Government grants	5,006	856	443	934	1,079	–	8,318
Capital expenditure*	43,451	2,647	11,774	8,450	708	–	67,030

* Capital expenditure consists of additions of right-of-use assets amounted to HK\$21,299,000 (2022: HK\$33,028,000).

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
<i>Revenue from contracts with customers</i>		
Sale of CCMG products	298,634	343,715
Sale of Chinese healthcare products	81,987	78,858
Sale of raw Chinese herbs	11,910	13,254
Rendering of Diagnostic Services	14,328	12,242
	<u>406,859</u>	<u>448,069</u>
Total revenue	<u><u>406,859</u></u>	<u><u>448,069</u></u>

Revenue from contracts with customers

Disaggregated revenue information

For the year ended 31 December 2023

Segments	Sale of goods <i>HK\$'000</i>	Diagnostic services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or services			
Sale of goods	392,531	–	392,531
Rendering of services	–	14,328	14,328
	<u>392,531</u>	<u>14,328</u>	<u>406,859</u>
Total revenue from contracts with customers	<u><u>392,531</u></u>	<u><u>14,328</u></u>	<u><u>406,859</u></u>
Geographical markets			
Hong Kong	290,989	14,294	305,283
Chinese Mainland	62,832	34	62,866
Other countries/regions	38,710	–	38,710
	<u>392,531</u>	<u>14,328</u>	<u>406,859</u>
Total revenue from contracts with customers	<u><u>392,531</u></u>	<u><u>14,328</u></u>	<u><u>406,859</u></u>
Timing of revenue recognition			
Goods transferred at a point in time	392,531	–	392,531
Services transferred over time	–	14,328	14,328
	<u>392,531</u>	<u>14,328</u>	<u>406,859</u>
Total revenue from contracts with customers	<u><u>392,531</u></u>	<u><u>14,328</u></u>	<u><u>406,859</u></u>

For the year ended 31 December 2022

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

Other income and gains

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grants*	9,453	8,318
Gain from the sale of equipment and accessories	3,309	1,687
Bank interest income	293	475
Gross rental income from investment property operating leases:		
Variable lease payments that do not depend on an index or a rate	336	405
Others	1,760	5,105
	<hr/>	<hr/>
Total other income and gains	15,151	15,990
	<hr/> <hr/>	<hr/> <hr/>

- * 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.

5. LOSS BEFORE TAX

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Cost of inventories sold		185,881	181,518
Cost of services provided		4,349	3,847
Depreciation of property, plant and equipment		21,711	23,840
Depreciation of right-of-use assets		21,522	19,690
Amortisation of intangible assets		5,358	5,131
Fair value loss on investment properties*		63	1,619
Fair value loss/(gain) on financial assets at fair value through profit or loss*		3	(174)
Fair value loss on biological assets, net*		16,790	36,656
Loss/(gain) on disposal of right-of-use assets*		932	(41)
Impairment loss on goodwill		3,049	–
Write-down of inventories to net realisable value**		2,332	4,833
Impairment loss on trade and bills receivables	9	2,727	10,545
Impairment loss on prepayments, other receivables, and other assets		2,307	1,361
Impairment loss on property, plant and equipment		12,804	3,022
Lease payments not included in the measurement of lease liabilities		2,220	4,298
Auditor's remuneration		2,550	2,600
Employee benefit expense (excluding directors' remuneration)			
Wages and salaries		118,268	81,618
Pension scheme contributions (defined contribution scheme)****		12,481	9,653
Equity-settled share award and share option expenses		17	80
		<u>130,766</u>	<u>91,351</u>
Total		<u>130,766</u>	<u>91,351</u>
Research and development costs***		16,770	22,323
Loss on disposal of property, plant and equipment*		354	–
Foreign exchange difference, net		406	84
		<u>406</u>	<u>84</u>

* Fair value gain on financial assets at fair value through profit or loss and gain on disposal of right-of use assets were included in the “Others” of “Other income and gains” in the consolidated statement of profit or loss for the years ended 31 December 2023 and 2022. The fair value loss on investment properties, financial assets at fair value through profit or loss and biological assets, loss on disposal of property, plant and equipment and right-of-use assets were included in “Other expenses” in the consolidated statement of profit or loss for the years ended 31 December 2023 and 2022.

** The write-down of inventories to net realisable value was included in the “Cost of sales” in the consolidated statement of profit or loss for the years ended 31 December 2023 and 2022.

*** HK\$1,783,000 (2022: HK\$2,118,000) disclosed in the item of “Depreciation” and HK\$6,090,000 (2022: HK\$7,694,000) disclosed in the item of “Employee benefit expense” were also included in “Research and development costs”.

**** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

6. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax.

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2022: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

U.S. profits taxes have been provided at the federal rate of 21.0% and the state rate of 8.8% as well as Japan profits tax has been provided at the rate of 23.2% on the estimated assessable profits arising in the respective jurisdictions, during the years ended 31 December 2023 and 2022.

The statutory tax rate of the Group in respect of its operation in Chinese Mainland is 25% (2022: 25%). The Group's PRC subsidiary, Purapharm (Nanning) Pharmaceuticals Co., Limited (“**PuraPharm Nanning**”), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15% (2022: 15%). According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agri-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. have obtained the documentation acknowledged by the tax authority in charge for the corporate income tax exemption for years ended 31 December 2023 and 2022 and the preferential income tax rate was 0%.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	2,856	663
(Overprovision)/underprovision in prior years	(373)	386
Current-Elsewhere	447	907
Deferred	839	(924)
Total	<u>3,769</u>	<u>1,032</u>

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

2023

	Chinese Mainland		Hong Kong		Others		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Loss before tax	<u>(90,166)</u>		<u>5,675</u>		<u>(17,821)</u>		<u>(102,312)</u>	
Tax at the statutory tax rates	(22,573)	25.0	936	16.5	(1,556)	8.7	(23,193)	22.7
Lower tax rate enacted by								
local authority	4,454	(4.9)	-	-	-	-	4,454	(4.4)
Tax waiver	-	-	(165)	(2.9)	-	-	(165)	0.2
Tax incentive on eligible expenses	(2,412)	2.7	-	-	-	-	(2,412)	2.4
Adjustments in respect of								
current tax of previous periods	-	-	(373)	(6.6)	-	-	(373)	0.4
Income not subject to tax	-	-	(2)	0.0	-	-	(2)	0.0
Expenses not deductible for tax	236	(0.3)	591	10.4	-	-	827	(0.8)
Tax losses utilised from								
previous years	(9)	0.0	(1,140)	(20.1)	(116)	0.7	(1,265)	1.2
Tax losses not recognised	<u>20,854</u>	<u>(23.1)</u>	<u>2,974</u>	<u>52.4</u>	<u>2,070</u>	<u>(11.6)</u>	<u>25,898</u>	<u>(25.3)</u>
Tax charge at the Group's effective rate	<u>550</u>	<u>(0.6)</u>	<u>2,821</u>	<u>49.7</u>	<u>398</u>	<u>(2.2)</u>	<u>3,769</u>	<u>(3.6)</u>

2022

	Chinese Mainland		Hong Kong		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(88,217)</u>		<u>(3,012)</u>		<u>(27,953)</u>		<u>(119,182)</u>	
Tax at the statutory tax rates	(22,054)	25.0	(497)	16.5	(5,582)	20.0	(28,133)	23.6
Lower tax rate enacted by								
local authority	(417)	0.5	–	–	–	–	(417)	0.3
Tax waiver	–	–	(102)	3.4	–	–	(102)	0.1
Tax incentive on eligible expenses	(2,938)	3.3	–	–	–	–	(2,938)	2.5
Adjustments in respect of current tax								
of previous periods	807	(0.9)	386	(12.8)	–	–	1,193	(1.0)
Expenses not deductible for tax	3,274	(3.7)	204	(6.8)	89	(0.3)	3,567	(3.0)
Tax losses utilised from								
previous years	(20)	0.0	(443)	14.7	–	–	(463)	0.4
Tax losses not recognised	<u>22,017</u>	<u>(25.0)</u>	<u>924</u>	<u>(30.7)</u>	<u>5,384</u>	<u>(19.3)</u>	<u>28,325</u>	<u>(23.8)</u>
Tax charge at the Group's effective rate	<u>669</u>	<u>(0.8)</u>	<u>472</u>	<u>(15.7)</u>	<u>(109)</u>	<u>0.4</u>	<u>1,032</u>	<u>(0.9)</u>

7. DIVIDENDS

No dividend was proposed for the years ended 31 December 2023 and 2022.

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

	2023	2022
Loss per share attributable to ordinary equity holders of the parent		
– Basic and diluted (HK cents)	<u>(26.85)</u>	<u>(30.47)</u>

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the years ended 31 December 2023 and 2022 excluding ordinary shares purchased by the Group and held for the Award Scheme.

	2023	2022
Loss attributable to ordinary equity holders of the parent (<i>HK\$'000</i>)	(106,081)	(120,214)
Weighted average number of ordinary shares in issue	<u>395,052,941</u>	<u>394,584,833</u>
Basic loss per share (<i>expressed in HK cents per share</i>)	<u>(26.85)</u>	<u>(30.47)</u>

The calculation of the weighted average number of ordinary shares amounting to 395,052,941 (31 December 2022: 394,584,833) in issue for the year ended 31 December 2023 is as follows:

	2023	2022
Number of issued shares on 1 January	395,897,275	394,892,941
Adjustment for shares held for share award scheme	(844,334)	(896,950)
Exercise of share options	<u>–</u>	<u>588,842</u>
Weighted average number of ordinary shares	<u>395,052,941</u>	<u>394,584,833</u>

(b) Diluted

The Group had no potentially dilutive ordinary shares in issue for share options and share award scheme during the years ended 31 December 2023 and 2022 as they had an anti-dilutive effect on the basic loss per share amounts presented.

9. TRADE AND BILLS RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables	132,273	163,811
Bills receivable (<i>Note</i>)	993	18,346
	<u>133,266</u>	<u>182,157</u>
Less: Impairment of trade and bills receivables	<u>(52,396)</u>	<u>(50,291)</u>
Net carrying amount	<u><u>80,870</u></u>	<u><u>131,866</u></u>

Note: During the year ended 31 December 2023, the Group entered into a series of bills discounted arrangements (the “**Arrangements**”) to transfer bills receivable (the “**Discounted Bills**”) to PRC banks or third-party company with a carrying amount in aggregate of HK\$441,000 (2022: HK\$17,451,000). Under the Arrangements, the Group may be required to reimburse the PRC banks or third-party company for loss of principal and interest if any trade debtors have default payment. In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills and other borrowings as disclosed in note 11. Due to the cash flow of bills receivable are not solely payments of principal and interest, the total amount of bills receivables are accounted as financial assets at fair value through other comprehensive income as at 31 December 2023 and in the opinion of the Directors, the carrying amounts of the Discounted Bills are approximate their fair values.

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

An ageing analysis of the trade and bills receivables as at 31 December 2023 and 2022, based on the invoice date and net of loss allowance, is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 month	51,226	83,781
1 to 3 months	1,952	6,720
3 to 6 months	819	4,863
6 months to 1 year	22,070	28,794
Over 1 year	<u>4,803</u>	<u>7,708</u>
Total	<u><u>80,870</u></u>	<u><u>131,866</u></u>

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	<i>Note</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
At beginning of year		50,291	43,852
Impairment losses	5	2,727	10,545
Exchange realignment		(622)	(4,106)
At end of year		<u>52,396</u>	<u>50,291</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and bills receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade and bills receivables using a provision matrix:

As at 31 December 2023

Group A

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	1.47%	6.77%	59.26%	100.00%	36.15%
Gross carrying amount (<i>HK\$'000</i>)	21,785	19,199	4,673	18,973	64,630
Expected credit losses (<i>HK\$'000</i>)	<u>321</u>	<u>1,300</u>	<u>2,769</u>	<u>18,973</u>	<u>23,363</u>

Group B

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	6.07%	22.57%	57.74%	100.00%	52.90%
Gross carrying amount (<i>HK\$'000</i>)	4,795	5,440	7,291	7,521	25,047
Expected credit losses (<i>HK\$'000</i>)	<u>291</u>	<u>1,228</u>	<u>4,210</u>	<u>7,521</u>	<u>13,250</u>

Group C

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	0.10%	18.28%	100.00%	100.00%	2.04%
Gross carrying amount (HK\$'000)	21,964	536	116	231	22,847
Expected credit losses (HK\$'000)	<u>22</u>	<u>98</u>	<u>116</u>	<u>231</u>	<u>467</u>

Group D

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	8.95%	35.61%	61.41%	100.00%	73.84%
Gross carrying amount (HK\$'000)	5,142	935	368	14,297	20,742
Expected credit losses (HK\$'000)	<u>460</u>	<u>333</u>	<u>226</u>	<u>14,297</u>	<u>15,316</u>

Total

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Gross carrying amount (HK\$'000)	53,686	26,110	12,448	41,022	133,266
Expected credit losses (HK\$'000)	<u>1,094</u>	<u>2,959</u>	<u>7,321</u>	<u>41,022</u>	<u>52,396</u>

As at 31 December 2022

Group A

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	1.12%	6.33%	41.20%	100.00%	22.77%
Gross carrying amount (HK\$'000)	39,840	33,597	3,784	17,416	94,637
Expected credit losses (HK\$'000)	<u>448</u>	<u>2,128</u>	<u>1,559</u>	<u>17,416</u>	<u>21,551</u>

Group B

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	5.56%	19.98%	67.35%	100.00%	43.09%
Gross carrying amount (HK\$'000)	5,274	17,753	5,748	8,236	37,011
Expected credit losses (HK\$'000)	<u>293</u>	<u>3,547</u>	<u>3,871</u>	<u>8,236</u>	<u>15,947</u>

Group C

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	0.44%	3.71%	100.00%	100.00%	1.24%
Gross carrying amount (HK\$'000)	30,574	835	35	192	31,636
Expected credit losses (HK\$'000)	<u>134</u>	<u>31</u>	<u>35</u>	<u>192</u>	<u>392</u>

Group D

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	1.28%	24.23%	44.78%	100.00%	65.71%
Gross carrying amount (HK\$'000)	1,725	1,535	6,530	9,083	18,873
Expected credit losses (HK\$'000)	<u>22</u>	<u>372</u>	<u>2,924</u>	<u>9,083</u>	<u>12,401</u>

Total

	Current	Past due			Total
		Less than 1 year	1 to 2 years	Over 2 years	
Gross carrying amount (HK\$'000)	77,413	53,720	16,097	34,927	182,157
Expected credit losses (HK\$'000)	<u>897</u>	<u>6,078</u>	<u>8,389</u>	<u>34,927</u>	<u>50,291</u>

At 31 December 2023, trade receivables of HK\$55,620,000 (2022: HK\$58,255,000) were pledged as security for the Group's bank loans (note 11).

10. TRADE AND BILLS PAYABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables	107,757	103,151
Bills payables	<u>38,622</u>	<u>34,760</u>
Total	<u><u>146,379</u></u>	<u><u>137,911</u></u>

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 month	52,514	56,005
1 to 2 months	5,500	23,618
2 to 3 months	12,627	37,493
Over 3 months	<u>75,738</u>	<u>20,795</u>
Total	<u><u>146,379</u></u>	<u><u>137,911</u></u>

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

11. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2023			2022		
	Effective interest rate%	Maturity	HK\$'000	Effective interest rate%	Maturity	HK\$'000
Current						
Bank overdraft – secured ^(a)	–	–	–	4.25–5.25	On demand	7,710
Bank loans – secured ^(a)	2.80–7.65	on demand	145,792	2.25–7.00	On demand	153,009
Bank loans – secured	2.47–7.00	2024	89,353	2.31–8.00	2023	174,018
Bank loans – unsecured ^(a)	4.50	on demand	15,656	4.50	On demand	18,965
Bank loans – unsecured	6.50	2024	17,823	3.65–5.66	2023	23,117
Other borrowings – secured	7.06–8.00	2024	6,708	8.21	2023	8,208
Other borrowings – unsecured	7.00–10.00	2024	28,691	8.50–10.00	2023	25,113
Total – current			<u>304,023</u>			<u>410,140</u>
Non-current						
Bank loans – secured	0.85–6.50	2025–2029	76,970	0.85–5.88	2024–2030	41,879
Bank loans – unsecured	1.20	2030	1,036	–	–	–
Other borrowings – secured	7.06	2025	3,087	6.25	2024–2025	6,801
Total – non-current			<u>81,093</u>			<u>48,680</u>
Total			<u><u>385,116</u></u>			<u><u>458,820</u></u>

	2023 HK\$'000	2022 HK\$'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	304,023	410,140
In the second year	11,147	9,814
In the third to fifth years, inclusive	59,841	21,747
Beyond five years	10,105	17,119
Total	<u><u>385,116</u></u>	<u><u>458,820</u></u>

Interest-bearing bank and other borrowings are denominated in:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
HK\$	112,280	127,444
RMB	270,763	328,749
JPY	<u>2,073</u>	<u>2,627</u>
Total	<u><u>385,116</u></u>	<u><u>458,820</u></u>

- (a) HK Interpretation 5 “Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause” requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time (“**repayment on demand clause**”) shall be classified in total by the borrower as current in the consolidated statement of financial position. Interest-bearing bank loans of the Group in the amount of HK\$112,280,000 (2022: HK\$112,944,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$39,670,000 (2022: HK\$36,308,000) that is repayable after one year from the end of 2023 has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year. The aforesaid amount did not include the default loans without on demand clause.
- (b) As at 31 December 2023, the Group was not in compliance with certain loan covenants and repayment terms as stipulated in the agreements of the bank loans amounting to approximately HK\$93,240,000 (31 December 2022: HK\$128,804,000). Bank loans amounting to HK\$59,404,000 (31 December 2022: HK\$89,117,000), out of the HK\$93,240,000, are repayable on demand or within 12 months and have already been accounted for as current liabilities as mentioned in note 11(a); and the remaining balance of HK\$33,836,000 (31 December 2022: HK\$39,687,000) which are repayable beyond 12 months, have already been accounted for as current liabilities. Waivers for the breach of these covenants and repayment terms of the loans amounting to HK\$88,132,000 (2022: HK\$62,065,000) have been obtained subsequent to the financial statements date.
- (c) As at 31 December 2023, the Group’s bank facilities including overdraft were amounting to HK\$490,593,000 (2022: HK\$543,657,000), of which HK\$385,116,000 (2022: HK\$458,820,000) had been utilised.

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

	<i>Notes</i>	Carrying value	
		2023	2022
		HK\$'000	HK\$'000
Property, plant and equipment		170,336	177,759
Investment properties		4,309	–
Right-of-use assets		36,533	37,669
Financial assets at fair value through profit or loss		18,733	18,736
Inventories		27,094	46,425
Trade and bills receivables	9	55,620	58,255
Pledged deposits		10,000	–
		322,625	338,844

(e) As at 31 December 2023, the Group's bank loans of HK\$48,208,000 (31 December 2022: HK\$56,203,000) were under the SME Financing Guarantee Scheme (the "Scheme"), and the relevant balances were guaranteed by the Government of Hong Kong Special Administrative Region and a personal guarantee by Mr. Abraham Chan, as required under the Scheme.

12. SHARE CAPITAL

Shares

	2023
	HK\$'000
Authorised:	
50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	38,750,000
Issued and fully paid:	
395,897,275 ordinary shares of US\$0.1 (HK\$0.775) each	306,820
	2022
	HK\$'000
Authorised:	
50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	38,750,000
Issued and fully paid:	
395,897,275 ordinary shares of US\$0.1 (HK\$0.775) each	306,820

A summary of movements in the Company's share capital and share premium account are 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	<u>394,892,941</u>	<u>306,042</u>	<u>221,189</u>	<u>527,231</u>
Share option exercised	1,004,334	778	315	1,093
Transfer of vested shares under Share Award Scheme	<u>–</u>	<u>–</u>	<u>67</u>	<u>67</u>
At 31 December 2022, 1 January 2023 and 31 December 2023	<u><u>395,897,275</u></u>	<u><u>306,820</u></u>	<u><u>221,571</u></u>	<u><u>528,391</u></u>

13. CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 31 December 2023 and 2022.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.1 to the consolidated financial statements, which indicates that as of 31 December 2023, the Group recorded a net current liabilities of HK\$221.5 million, out of which HK\$304.0 million represented the current portion of interest-bearing bank and other borrowings. Along with the current situation as set forth in note 2.1, which indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

During the post-pandemic era, China's economy has maintained steady growth. The social and economic environment has been gradually recovering, resulting in the resumption in the production and consumption levels. 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 transform into new positive developments to China's pharmaceutical industry. Furthermore, consumers have become more health-conscious, which will create more opportunities to the Group's Chinese healthcare products segment.

Looking ahead, in parallel with the new national standard policies of Chinese medicine granules, the Chinese medicine granules industry is expected to achieve further rapid growth. The Group will leverage its existing experience and strengths to continuously diversify its business, further expand the Greater Bay Area market and seize the development opportunities in the Greater Bay Area to drive its business growth.

With respect to the research, development and production of Chinese medicine, the Group will continue to enhance the research and development of its high quality CCMG products, launch more innovative healthcare products featuring natural ingredients, enrich its product lines and improve its product quality. Furthermore, the Group actively cooperates with world-class research institutions to continuously promote the basic, molecular biology and drug application research of Chinese herbal medicine and to contribute to the sustainable development of the pharmaceutical industry. In the modernization of Chinese medicine, the Group actively promotes the business development of smart Chinese medicine clinics and insists on driving the development of traditional Chinese medicine by modern technology. Meanwhile, the Group proactively deploys itself in the Greater Bay Area market by focusing on online marketing and broadening its customer base through the promotion of competitive products. The Group will continue to innovate and uphold the traditions, which enables CCMG to better suit modern people's living habits, and provides professional and accurate Chinese medical diagnostic services, so as to support the Chinese medicine business in all aspects.

With respect to in-store retail business, the Group has always been committed to diversifying its developments. The Group will continue to optimize Nong's® Chinese medicine clinics to provide modern Chinese medicine diagnosis and treatment services and improve the store network by using the store-for-store approach to meet the consumer needs. In the meantime, the Group will also seize the opportunities to strengthen its grasp in the Greater Bay Area market. By deploying an alliance network of small and medium sized clinics, the Group vigorously explores new opportunities for cross-border e-commerce in the Greater Bay Area, which will further boost the sales of Chinese medicine granules and healthcare products. By leveraging its experience and strengths in the Chinese medicine market, the Group intends to focus on the Greater Bay Area and actively explore the Chinese medicine market in the area, with an aim to build modern and intelligent Chinese medicine clinics continuously in the next two years. 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, which caters for the consumers' demand of the younger generations, promotes revenue growth on all fronts and creates long-term stable returns for its shareholders.

FINANCIAL REVIEW

China CCMG

For the year ended 31 December 2023, 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\$50.8 million, representing a decrease of HK\$67.0 million or 56.9% compared to HK\$117.8 million last year. The decrease in revenue from China CCMG business in this year was mainly attributable to (i) the hospitals and clinics delayed the purchase cycle in 2023; and (ii) with the cost of CCMG produced under the prescribed national standards being higher than before, the market still undergoing an adjustment to adopt to the new higher pricing. As a result, the China CCMG sales business decreased in 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 sold its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the year, the direct sales of CCMG products in Hong Kong was HK\$208.4 million, representing an increase of HK\$16.3 million or 8.5% compared to HK\$192.1 million last year. For the year of 2023, the Group has improved both the segment's turnover as well as the gross profit through high quality customer service and stable supply of products, and due to Hong Kong market being unaffected by the new national standards. Also, under the direction of coexistence 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 "long COVID-19" and similar disease, which increased the demand of the CCMG products in Hong Kong market.

For the year ended 31 December 2023, 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.

Chinese Healthcare Products

Sales by regions

	Year ended 31 December					
	2023		2022		Change	
	Revenue		Revenue			
	HK\$'000	% of total	HK\$'000	% of total	HK\$'000	%
United States of America (the "U.S.A.")	30,119	36.7%	26,841	34.0%	3,278	12.2%
Japan	7,799	9.5%	7,499	9.5%	300	4.0%
Hong Kong and Mainland	44,069	53.8%	44,518	56.5%	(449)	(1.0)%
	<u>81,987</u>	<u>100.0%</u>	<u>78,858</u>	<u>100.0%</u>	<u>3,129</u>	<u>4.0%</u>

For the year ended 31 December 2023, revenue from sales of Chinese healthcare products in the U.S., Japan, Hong Kong and Mainland markets was HK\$82.0 million in aggregate, representing an increase of HK\$3.1 million or 4.0% as compared to HK\$78.9 million last year.

Among the Group's Chinese healthcare products segment, the sales in the Hong Kong and Mainland market recorded a decrease of HK\$0.4 million, which is mainly attributable to the customers' reaction to the price increment effective in 2023, and slow down of sales of Chinese healthcare products 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 year of 2023 in marketing and advertising of Chinese healthcare products, the expenses of which are recognized as an expense but should benefit the sales of the Group's various products in near future.

As the 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 transform to 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 product 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.

Nong's® (農本方®) Chinese Medicine Clinics

For the year ended 31 December 2023, the Group's optimization of the clinic is substantially completed. With the increasing number of clinics operated in Hong Kong from 22 clinics as at 31 December 2022 to 23 clinics as at 31 December 2023, the revenue generated by the Group's Nong's® (農本方®) Chinese medicine clinics through the sales of CCMG products and provision of Chinese medical diagnostic services increased to HK\$53.7 million by HK\$7.6 million or 16.5% compared to HK\$46.1 million last year.

The increase in revenue of Nong's clinics segment this year was mainly due to (i) the opening of the Central Clinic, which charges higher fees for consultation and treatment services than those charged by clinics in other parts of Hong Kong, as well as (ii) an increase in outpatient traffic caused by the increase in number of patients contracting influenza that was prevalent during the year.

The Group is seeking to explore the market opportunity in Great Bay Area and 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.

Plantation

For the year ended 31 December 2023, the upstream plantation segment contributed HK\$11.9 million to the Group's overall revenue, representing a decrease of HK\$1.4 million or 10.1% from HK\$13.3 million recorded last year. The revenue from the plantation segment was mainly derived from the plantation and trading of raw Chinese herbs.

Profitability

	Year ended 31 December		Change %
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	
Revenue	406,859	448,069	(9.2)%
Cost of sales	(190,230)	(185,365)	2.6%
Gross Profit	<u>216,629</u>	<u>262,704</u>	<u>(17.5)%</u>
Gross profit margin	<u>53.2%</u>	<u>58.6%</u>	

The Group's gross profit margin for the year ended 31 December 2023 was 53.2%, representing a decrease of 5.4%, as compared to 58.6% 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 the cost of CCMG produced under the new standards was higher than before and the market was 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 and interest income. For the year ended 31 December 2023, the Group's other income and gain was HK\$15.2 million, representing a decrease of HK\$0.8 million compared to HK\$16.0 million last year.

The decrease in other income and gains was mainly attributable to the decrease in interest income for the year of 2023.

Selling and Distribution Expenses

The Group's selling and distribution expenses mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses and sales and marketing departmental expenses. For the year ended 31 December 2023, the Group's selling and distribution expenses was HK\$91.7 million, representing a decrease of HK\$65.7 million or 41.8% compared to HK\$157.4 million last year. The decrease was mainly attributable to a decrease in the PRC marketing expenses including logistics arrangement, conducting market development activities, providing after-sales services and maintaining customer relationship in Mainland China as the China CCMG market was undergoing an adoption to the new national standards and marketing budget was reduced conservatively.

For the year of 2023, selling and distribution expenses as a percentage to revenue decreased from 35.1% in the year of 2022 to 22.5%. With the significant sales drop for the year of 2023, the Group has reacted promptly and controlled some of the variable marketing expenses, but some selling and distribution expenses, which are fixed in nature, may not be able to be adjusted accordingly without damaging the Group's market position, which are important for the expected sales rebound after the end of transitional period for the China CCMG market.

Administrative Expenses

	Year ended 31 December			
	2023	2022	Change	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Clinics operating expenses	32,317	25,849	6,468	25.0%
Research and development costs	16,770	22,323	(5,553)	(24.9%)
General administrative expenses	122,433	109,743	12,690	11.6%
	<hr/>	<hr/>	<hr/>	<hr/>
Total administrative expenses	<u>171,520</u>	<u>157,915</u>	<u>13,605</u>	<u>8.6%</u>

For the year ended 31 December 2023, the Group's administrative expenses was HK\$171.5 million, representing a increase of HK\$13.6 million or 8.6% compared to HK\$157.9 million last year. The administrative expenses mainly comprised of staff costs, research and development costs, office and clinics rental expenses, legal and professional fees, clinic management fee, depreciation and amortisation and other general administrative expenses.

For the year ended 31 December 2023, the Group's operating expenses for clinics segment was HK\$32.3 million, representing an increase of HK\$6.5 million or 25.0% compared to HK\$25.8 million 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 increased from 22 clinics as at 31 December 2022 to 23 clinics as at 31 December 2023.

The research and development costs for the year ended 31 December 2023 decreased by HK\$5.6 million or 24.9%, mainly due to the decrease in the testing and sampling fee as less products need to be registered and filed with the requirement of the new standards during the year.

The Group's general administrative expenses for the year of 2023 increased by HK\$12.7 million or 11.6%, which was mainly attributed to the increase in number of staff employed during the year in the Group, and the leasing of a new office in Shenzhen.

Other Expenses

For the year ended 31 December 2023, the Group's other expenses was HK\$22.5 million, representing a decrease of HK\$21.0 million or 48.3% compared to HK\$43.5 million for the financial year ended 31 December 2022. Such 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 and fair value loss on investment properties. Such decrease was mainly attributed to the impairment loss on biological assets of HK\$16.8 million recorded for the year ended 31 December 2023, representing a decrease of HK\$19.9 million or 54.2% compared to HK\$36.7 million last year.

Finance Costs

For the year ended 31 December 2023, the Group's finance costs amounted to HK\$27.4 million, which increased by HK\$3.2 million or 13.2% as compared to HK\$24.2 million last year. The increase in interest cost was in line with the increase in average utilisation of bank and other borrowings.

Income Tax Expense

The Group's income tax expenses increased from HK\$1.0 million last year to HK\$3.8 million for the year ended 31 December 2023. Such increase was mainly attributed to the Group's operations in Hong Kong regarding CCMG which were more profitable, and thus increased the income tax expense for the year ended 31 December 2023.

Future Plans For Material Investments Or Capital Assets

Save for the business plan disclosed in this announcement, the Group did not have any future plans for material investments or capital assets as at 31 December 2023.

Loss For The Year

The Group recorded a net loss of HK\$106.1 million for the year ended 31 December 2023, as compared with the net loss of HK\$120.2 million recorded last year. Such net loss is mainly attributed to the following factors:

- (i) the implementation of the new policy of national standards for CCMG, which has led to a slowdown in the CCMG business in China; and
- (ii) the impairment loss on biological assets related to the Group's plantation segment recognised for the year ended 31 December 2023 in the amount of HK\$16.8 million, as compared with the fair value loss on biological assets of HK\$36.7 million last year.

LIQUIDITY AND FINANCIAL RESOURCES

Cash position and interest-bearing bank and other borrowings

	Year ended 31 December			
	2023	2022	Change	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Net current liabilities	221,521	179,410	42,111	23.5%
Cash and cash equivalent	20,126	75,831	(55,705)	(73.5)%
Interest-bearing bank and other borrowings	385,116	458,820	(73,704)	(16.1)%
Current portion	304,023	410,140	(106,117)	(25.9)%
Non-current portion	81,093	48,680	32,413	66.6%
Unused bank facilities	105,477	84,837	20,640	24.3%

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

Cash flow and liquidity ratio analysis

	Year ended 31 December		
	2023	2022	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	79,608	88,505	(8,897)
Net cash used in investing activities	(18,203)	(31,245)	13,042
Net cash used in financing activities	(122,390)	(35,594)	(86,796)
Current ratio	0.6	0.7	
Gearing ratio	2.5	1.8	

For the year ended 31 December 2023, the Group's net cash generated from operating activities was HK\$79.6 million, which was lower than last year by HK\$8.9 million. The decrease in operating cash inflow was mainly due to (i) the decrease in trade and bills receivables of China CCMG sales as a result of the collection of trade and bills receivables, which was higher than the sales in the second half of 2023, and (ii) decrease in cash outflow for settlement of trade and bills payables for the raw material purchase for production.

For the year ended 31 December 2023, the Group's net cash used in investing activities was HK\$18.2 million, which was mainly the combined effect of the decrease in pledged time deposit and the purchase of property, plant and equipment mainly for upgrading of the production line in Nanning to meet the requirements of the new national standards. The Group's net cash used in investing activities was HK\$31.2 million last year due to a decrease in pledged time deposit.

For the year ended 31 December 2023, the Group's net cash used in financing activities was HK\$122.4 million, representing an increase by HK\$86.8 million as compared to last year mainly due to the combined effect of the net decrease in bank loans and other borrowings during 2023.

The Group's current ratio decreased from 0.7 as at 31 December 2022 to 0.6 as at 31 December 2023, such decrease was mainly attributable to the significant decrease in trade and bills receivables partly offset by the decrease in the current bank and other borrowings.

The Group's gearing ratio (calculated by dividing total interest-bearing bank and other borrowings by total equity) increased from 1.8 as at 31 December 2022 to 2.5 as at 31 December 2023. Such increase was mainly attributable to the decrease in the Group's equity as a result of the net loss for the year ended 31 December 2023.

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

EXCHANGE RISK

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

HUMAN RESOURCES

As at 31 December 2023, the Group had a total of 662 employees (31 December 2022: 663 employees). During the year ended 31 December 2023, total staff costs excluding Directors' remuneration was HK\$130.8 million (31 December 2022: HK\$91.4 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the performance of the Group and individuals. The Group also allocated resources for continuing education and would arrange regular trainings to staff members and management personnel to improve their skills and knowledge.

PLEDGE OF ASSETS

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

	Year ended 31 December	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	170,336	177,759
Right-of-use assets	36,533	37,669
Financial assets at fair value through profit or loss	18,733	18,736
Inventories	27,094	46,425
Trade and bills receivables	55,620	58,255
Pledged bank deposits	10,000	–
Investment properties	4,309	–
	322,625	338,844

CAPITAL COMMITMENT

The Group had the following capital commitment:

	Year ended 31 December	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings	27,423	24,245
Plant and machinery	—	196
	<u>27,423</u>	<u>24,441</u>

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments during the year ended 31 December 2023.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2023, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the business plan disclosed in this announcement, the Group did not have any future plans for material investments or capital assets as at 31 December 2023.

CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 31 December 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**”). The balance of the Net Proceeds brought forward from 31 December 2022 was approximately HK\$6.4 million. As at 31 December 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 of proceeds	Total approximate amount of Net Proceeds (in HK\$ million)	Approximate percentage of Net Proceeds	Approximate	Approximate	Expected timeline for intended use
			amount utilised as at 31 December 2023 (in HK\$ million)	amount utilised during the year ended 31 December 2023 (in HK\$ million)	
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 2025
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>

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

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

SHARE OPTION SCHEME

On 12 June 2015, the share option scheme (the “**Share Option Scheme**”) was adopted by the then Shareholders and will be valid and effective for a period of 10 years from the adoption date on 12 June 2015 and shall expire on the day immediately preceding the tenth anniversary period (which will expire on 11 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 options 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 of Hong Kong Limited (the “**Stock Exchange**”) for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share on the date of grant. Any share options granted under the Share Option Scheme shall lapse in any event not later than ten years from the date of grant. A nominal value of HK\$1.00 is payable on acceptance of each grant of share options. The period within which payments or calls must or may be made or loans for such purposes must be repaid for the amount payable on acceptance of the option under the rules of the Share Option Scheme is 30 days after the relevant date of grant of the options. The Board shall have the discretion to decide the period within which the shares must be taken up under the share options and the minimum period for which the share option must be held before it can be exercised.

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

On 9 May 2019, 6,376,000 options were granted to four Directors and certain employees of the Company, entitling them to subscribe for a total of 6,376,000 shares at the exercise price of HK\$2.4 per share. The closing price of the share immediately before the date of grant is HK\$2.267. The exercise period of the share options are from the respective vesting dates to 8 May 2029. As a result of the completion of Rights Issue on 2 March 2020, the exercise price of the Share Options and the number of Shares which may fall to be issued upon exercise of the subscription rights attaching to the outstanding Share Options granted on 9 May 2019 were adjusted. The adjusted exercise price of the outstanding Share Options granted on 9 May 2019 was HK\$2.3 per share.

On 24 July 2020, a total of 16,124,000 options were granted to five Directors and certain employees of the Company, entitling them to subscribe for a total of 16,124,000 shares at the exercise price of HK\$0.8 per share, conditional upon the grantee accepting the grant. The closing price of the share immediately before the date of grant is HK\$0.69. The exercise period of the share options are from the respective vesting dates to 23 July 2030. Among the options resolved to grant, 4 employees did not accept the grant and out of the 16,124,000 options, resulting 800,000 options not being granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

On 29 December 2022, a total of 7,700,000 options were granted to two Directors, entitling them to subscribe for 7,700,000 ordinary shares at the exercise price of HK\$1.292 per share. The particulars of the said grant are as follows:

Closing price of the shares on : HK\$1.29 per share
the date of grant

Closing price of the shares : HK\$1.28 per share
immediately before the date of
grant

Validity period of the options : 10 years from 29 December 2022 to 28 December
2032, both dates inclusive

Vesting schedule of the options : 50% of options granted on the first anniversary date of
grant shall be vested to the Grantees and the remaining
balance of 50% on the second anniversary date of grant
shall be vested to the Grantees

During the year ended 31 December 2023, no options were granted by the Board. No options were exercised and 66,667 options were forfeited due to the resignation of one employee during the year ended 31 December 2023.

As at 1 January 2023 and 31 December 2023, the total number of share which may be issued upon the exercise of all outstanding options granted under the Share Option Scheme was 24,029,091 and 23,962,424 shares. Since as at 1 January 2023 and 31 December 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 to be issued upon the exercise of all outstanding options under the Share Option Scheme represents approximately 6.07% and 6.05% of the total number of issued shares of the Company.

As at 1 January 2023 and 31 December 2023, the total number of share available for issue under the Share Option Scheme was 31,789,294 and 31,789,294 shares. Since as at 1 January 2023 and 31 December 2023 that the total 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. There was no service provider sublimit set for the Share Option Scheme.

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

Grantees	Name of Director	Grant date	Exercise price	Vesting date	As at 1 January 2023	Number of options granted during the Reporting Period	Exercised during the Reporting Period	Adjustment/ canceled/ lapsed during the Reporting Period	As at 31 December 2023					
Directors	Mr. Chan Yu Ling, Abraham	9 May 2019	HK\$2.3 <i>(Note)</i>	10 May 2020	1,085,228	-	-	-	1,085,228					
				10 May 2021	1,085,228	-	-	-	1,085,228					
		24 Jul 2020	HK\$0.8	23 Jul 2021	1,740,000	-	-	-	1,740,000					
				23 Jul 2022	1,740,000	-	-	-	1,740,000					
				29 Dec 2022	1,925,000	-	-	-	1,925,000					
	29 Dec 2022	HK\$1,292	29 Dec 2023	1,925,000	-	-	-	1,925,000						
			29 Dec 2024	1,925,000	-	-	-	1,925,000						
	Ms. Man Yee Wai, Viola	9 May 2019	HK\$2.3 <i>(Note)</i>	10 May 2020	354,275	-	-	-	354,275					
				10 May 2021	354,275	-	-	-	354,275					
		24 Jul 2020	HK\$0.8	23 Jul 2021	1,740,000	-	-	-	1,740,000					
				23 Jul 2022	1,740,000	-	-	-	1,740,000					
				29 Dec 2022	1,925,000	-	-	-	1,925,000					
	29 Dec 2022	HK\$1,292	29 Dec 2023	1,925,000	-	-	-	1,925,000						
			29 Dec 2024	1,925,000	-	-	-	1,925,000						
	Sub-total for Directors					17,539,006	-	-	-	17,539,006				
		Mr. Chan Kin Man, Eddie (retired on 28 May 2021)	9 May 2019	HK\$2.3 <i>(Note)</i>	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 <i>(Note)</i>	10 May 2020	354,275	-	-	-	354,275					
				10 May 2021	354,275	-	-	-	354,275					
		24 Jul 2020	HK\$0.8	23 Jul 2022	871,000	-	-	-	871,000					
Mr. Norimoto Hisayoshi		09 May 2019	HK\$2.3 <i>(Note)</i>	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	23 Jul 2023	66,666	66,666	-	-	-	66,666					
										66,667	-	-	-	66,667
										66,666	-	-	-	66,666
Sub-total					5,869,144	-	-	-	5,869,144					
Employees	9 May 2019	HK\$2.3 <i>(Note)</i>	10 May 2020	88,570	-	-	-	88,570						
			10 May 2021	88,568	-	-	-	88,568						
			10 May 2022	88,568	-	-	-	88,568						
			10 May 2023	88,568	-	-	-	88,568						
			354,274	-	-	-	354,274							
	24 July 2020	HK\$0.8	23 July 2021	-	-	-	-	-						
			23 July 2022	133,333	-	-	(33,333)	100,000						
			23 July 2023	133,334	-	-	(33,334)	100,000						
			266,667	-	-	(66,667)	200,000							
			620,941	-	-	(66,667)	554,274							
Sub-total for Employees					620,941	-	-	(66,667)	554,274					
Total					24,029,091	-	-	(66,667)	23,962,424					

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

The weighted average closing price per Share immediately before the date on which the Options were exercised is HK\$1.440.

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 C1 (previously Appendix 14) to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). During the year ended 31 December 2023 (the “**Review Period**”), save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

Pursuant to code provision C.2.1 of the Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, due to the nature and extent of the Group’s operations and Mr. Chan Yu Ling, Abraham’s in-depth knowledge and experience in Chinese medicine and healthcare products and his familiarity with the operations of the Group, the Board considers that it is not preferable to find an alternative candidate to replace Mr. Chan Yu Ling, Abraham 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 code provision C.2.1 of the Code. Further, the Board believes that the current structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. Besides, all major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team. There have been three Independent non-executive Directors in the Board during the Review Period that the independence element was sufficient in the Board.

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

REVIEW BY AUDIT COMMITTEE

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

Mr. Ho Kwok Wah, George (*Chairman, Independent non-executive Director*)

Dr. Leung Lim Kin, Simon (*Independent non-executive Director*)

Prof. Tsui Lap Chee (*Independent non-executive Director*)

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

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

The Audit Committee has, among others, considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management. The Audit Committee has reviewed the annual financial results for the year ended 31 December 2023 and considers that the annual results are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made. The Audit Committee has also reviewed the effectiveness and performance of the Group's risk management and internal control systems and internal audit plan.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's results for the year ended 31 December 2023 as set out in this preliminary announcement of results have been agreed by the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

MODEL CODE FOR SECURITIES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix C3 (previously Appendix 10) to the Listing Rules as its own code of conduct for securities transactions by Directors. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the required standards of dealing as set out in the Model Code during the year ended 31 December 2023 and the Board was of the view that the Model Code has been fully complied with during the year ended 31 December 2023.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

The Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities throughout the year ended 31 December 2023.

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

The Board is not aware any significant event affecting the Company or any of its subsidiaries after 31 December 2023 and up to the date of this announcement.

DIVIDEND

The Board resolved not to recommend the payment of final dividend for the year ended 31 December 2023 to the shareholders of the Company (2022: nil).

ANNUAL GENERAL MEETING

The annual general meeting (“**AGM**”) will be held on Friday, 24 May 2024 and the notice of AGM will be published and despatched in the manner as required by the Listing Rules and articles of association of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 21 May 2024 to Friday, 24 May 2024, both dates inclusive, during which no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on 24 May 2024 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 pm on Monday, 20 May 2024.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com. The annual report of the Company for the year ended 31 December 2023 will also be issued and made available on the above websites according to the Listing Rules in April 2024.

FORWARD LOOKING STATEMENTS

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

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

Hong Kong, 28 March 2024

As at the date of this announcement, the executive Directors of the Company are Mr. Chan Yu Ling, Abraham and Ms. Man Yee Wai, Viola; 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.