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PuraPharm
PURAPHARM CORPORATION LIMITED
培力控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1498)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

FINANCIAL HIGHLIGHTS				
	Six months ended 30 June		Change	
	2015	2014		
	HK\$'000	HK\$'000	HK\$'000	%
	(Unaudited)	(Unaudited)		
Revenue				
China CCMG	82,867	64,659	18,208	28.2
Hong Kong CCMG	72,217	68,566	3,651	5.3
Chinese healthcare products	26,179	20,437	5,742	28.1
Nong's® (農本方)® Chinese medicine clinics	5,639	1,944	3,695	190.1
	<u>186,902</u>	<u>155,606</u>	31,296	20.1
Gross profit	<u>119,000</u>	<u>98,441</u>	20,559	20.9
Profit/(loss) for the period attributable to owners of the Company	<u>(7,596)</u>	<u>6,476</u>	(14,072)	(217.3)

The board (the “**Board**”) of directors (the “**Directors**”) of PuraPharm Corporation Limited (the “**Company**”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2015 (the “**Reporting Period**”) as follows.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2015	2014
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
REVENUE	6	186,902	155,606
Cost of sales		<u>(67,902)</u>	<u>(57,165)</u>
Gross profit		119,000	98,441
Other income and gains	6	3,014	1,831
Selling and distribution expenses		(57,985)	(46,989)
Administrative expenses		(61,919)	(37,072)
Other expenses		(1,333)	(1,431)
Finance costs		<u>(6,018)</u>	<u>(6,657)</u>
PROFIT/(LOSS) BEFORE TAX	7	(5,241)	8,123
Income tax expense	8	<u>(2,355)</u>	<u>(1,623)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>(7,596)</u>	<u>6,500</u>
Attributable to:			
Owners of the parent		(7,596)	6,476
Non-controlling interest		<u>—</u>	<u>24</u>
		<u>(7,596)</u>	<u>6,500</u>
EARNINGS/(LOSSES) PER SHARE			
ATTRIBUTABLE TO THE ORDINARY			
EQUITY HOLDERS OF THE COMPANY			
— Basic and diluted (expressed in HK\$			
per share)	10	<u>(0.05)</u>	<u>150,605</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	<u>(7,596)</u>	<u>6,500</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	248	144
Income tax effect	<u>(41)</u>	<u>(24)</u>
	207	120
Exchange differences on translation of foreign operations	<u>(473)</u>	<u>(1,736)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>(266)</u>	<u>(1,616)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>(7,862)</u>	<u>4,884</u>
Attributable to:		
Owners of the parent	(7,862)	4,860
Non-controlling interest	<u>–</u>	<u>24</u>
	<u>(7,862)</u>	<u>4,884</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2015	31 December 2014
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		79,500	77,729
Prepaid land lease payments		2,794	2,832
Intangible assets		9,283	7,134
Available-for-sale investments		10,779	10,531
Prepayments for non-current assets	<i>12</i>	32,961	11,431
Deferred tax assets		6,609	5,047
Total non-current assets		141,926	114,704
CURRENT ASSETS			
Inventories		105,707	89,893
Trade and bills receivables	<i>11</i>	94,771	103,098
Prepayments, deposits and other receivables	<i>12</i>	35,571	33,184
Due from a director	<i>16(c)</i>	–	11,822
Due from related companies	<i>16(c)</i>	–	240
Pledged bank deposits		13,758	20,633
Cash and cash equivalents		22,438	46,736
Total current assets		272,245	305,606
CURRENT LIABILITIES			
Trade payables	<i>13</i>	37,154	44,546
Other payables and accruals		43,538	37,688
Interest-bearing bank borrowings	<i>14</i>	199,963	182,692
Due to the immediate holding company	<i>16(c)</i>	–	12,365
Tax payable		2,518	3,780
Government grants		1,212	1,504
Total current liabilities		284,385	282,575
NET CURRENT ASSETS/(LIABILITIES)		(12,140)	23,031
TOTAL ASSETS LESS CURRENT LIABILITIES		129,786	137,735

		30 June 2015	31 December 2014
	<i>Note</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		129,786	137,735
NON-CURRENT LIABILITIES			
Government grants		1,786	1,909
Deferred tax liabilities		54	13
Total non-current liabilities		1,840	1,922
Net assets		127,946	135,813
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	30,000	30,000
Reserves		97,946	105,689
		127,946	135,689
Non-controlling interest		–	124
Total equity		127,946	135,813

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND REORGANISATION

PuraPharm Corporation Limited (the “**Company**”) was incorporated as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands on 2 December 2011. The registered office address is Floor 4, Willow House, Cricket Square, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands.

The Company is an investment holding company. During the six months ended 30 June 2015 (the “**Reporting Period**”), the Group was principally engaged in the research, development, manufacturing and sale of Concentrated Chinese Medicine Granules (“**CCMG**”) products and Chinese healthcare products, as well as rendering of Chinese medical diagnostic services.

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

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong. The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the preparation of the Group’s financial information for the years ended 31 December 2012, 2013 and 2014 included in the accountants’ report set out in Appendix I to the prospectus of the Company dated 25 June 2015 (the “**Accountants’ Report**”). All Hong Kong Financial Reporting Standards (the “**HKFRSs**”) effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the interim condensed consolidated statement of financial position as at 30 June 2015 and the interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the Reporting Period.

These unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Accountants’ Report.

The interim condensed consolidated financial statements has been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. The Interim condensed consolidated financial statements is presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the Reporting Period. 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 interest, even if this results in the non-controlling interest 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 in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs (which also include Hong Kong Accounting Standards (the "HKASs") and interpretations) that are relevant to the Group's operation for the preparation of the Group's Interim condensed consolidated financial statements:

Amendments to HKAS 19

Annual Improvements

2010–2012 Cycle

Annual Improvements

2011–2013 Cycle

Defined Benefit Plans: Employee Contributions

Amendments to a number of HKFRSs

Amendments to a number of HKFRSs

The adoption of the above new and amended HKFRSs has had no significant financial effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these interim condensed consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. NET CURRENT LIABILITIES

As at 30 June 2015, the current liabilities of the Group exceeded its current assets by HK\$12.1 million. In view of the net current liabilities position as of 30 June 2015, the directors of the Group have given careful 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.

Having considered the future cash inflow from operations, proceeds from the initial public offering on the Main Board of the Stock Exchange on 8 July 2015 (note 17), the Group's unused credit facilities of HK\$18.2 million as at 30 June 2015 and the refinancing of bank borrowings upon their expiry by drawing down new bank borrowings, the directors of the Group are satisfied that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group may curtail or defer its expansion plans based on the availability of sufficient funds. Accordingly, the interim condensed consolidated financial statements have been prepared on a going concern basis.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four 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 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 and China; and
- (d) the clinics segment mainly engages in the provision of Chinese medical diagnostic services and sales of CCMG products through self-operated clinics.

As compared with the year ended 31 December 2014, the sales of CCMG products through self-operated clinics were separately accounted for in the clinic segment for the Reporting Period. Management monitors the results of the Group's operating segments respectively for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit or loss before tax except the government grants, interest income, gain on disposal of subsidiaries, 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 six months ended 30 June 2015 and 2014.

Six months ended 30 June 2015 (Unaudited)

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue						
Revenue to external customers	82,867	72,217	26,179	5,639	–	186,902
Intersegment sales	49,821	2,250	1,466	–	(53,537)	–
	<u>132,688</u>	<u>74,467</u>	<u>27,645</u>	<u>5,639</u>	<u>(53,537)</u>	<u>186,902</u>
Segment results	20,042	18,958	1,783	(4,272)	–	36,511
<i>Reconciliations:</i>						
Government grants						1,887
Interest income						351
Foreign exchange loss						(55)
Listing expense						(17,245)
Finance costs						(6,018)
Corporate and other unallocated expenses						<u>(20,672)</u>
Loss before tax						(5,241)
Income tax expense						<u>(2,355)</u>
Net loss						<u><u>(7,596)</u></u>
Other segment information						
Depreciation and amortisation	5,777	904	448	449	–	7,578
Provision for impairment of inventories	<u>1,526</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,526</u>

Six months ended 30 June 2014 (Unaudited)

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue						
Revenue to external customers	64,659	68,566	20,437	1,944	–	155,606
Intersegment sales	<u>33,792</u>	<u>835</u>	<u>1,982</u>	<u>–</u>	<u>(36,609)</u>	<u>–</u>
	<u>98,451</u>	<u>69,401</u>	<u>22,419</u>	<u>1,944</u>	<u>(36,609)</u>	<u>155,606</u>
Segment results	7,615	20,061	3,935	(13)	–	31,598
<i>Reconciliations:</i>						
Government grants						1,024
Interest income						494
Foreign exchange loss						(245)
Finance costs						(6,657)
Corporate and other unallocated expenses						<u>(18,091)</u>
Profit before tax						8,123
Income tax expense						<u>(1,623)</u>
Net profit						<u>6,500</u>
Other segment information						
Depreciation and amortisation	5,487	778	430	105	–	6,800
Provision for impairment of inventories	<u>1,204</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,204</u>

6. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales of CCMG and Chinese healthcare products	185,545	155,267
Rendering of Chinese medical diagnostic services	1,357	339
	186,902	155,606
Other income and gains		
Government grants*	1,887	1,024
Gain from the sale of equipment and accessories	740	263
Bank interest income	351	494
Others	36	50
	3,014	1,831

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

7. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	67,181	56,990
Cost of services provided	721	175
Depreciation	6,996	6,368
Amortisation of intangible assets	543	393
Research and development costs*	7,089	7,316
Minimum lease payments under operating leases:		
Office equipment	105	58
Land and buildings	5,485	3,546
	5,590	3,604
Amortisation of prepaid land lease payments	39	39
Auditors' remuneration	1,093	542
Listing expenses	17,245	–
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	37,924	29,639
Pension scheme contributions	4,539	3,247
	42,463	32,886
Foreign exchange loss, net**	55	245
Write-down of inventories to net realisable value***	1,526	1,204
Loss on disposal of items of property, plant and equipment	97	3

* Included in the research and development costs, HK\$381,000 and HK\$601,000 are disclosed in the item of "Depreciation", and HK\$3,478,000 and HK\$2,894,000 are disclosed in the item of "Employee benefit expenses" for the six months ended 30 June 2015 and 2014, respectively.

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

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

8. 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 incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Reporting Period. The statutory tax rate of the Group in respect of its operation in China is 25%. The Group's PRC subsidiary, PuraPharm (Nanning) Pharmaceuticals Co., Limited is qualified as High and New Technology Enterprise and was subject to a preferential income tax rate of 15% during the Reporting Period.

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Current	3,917	1,690
Deferred	(1,562)	(67)
Total tax charge for the period	<u>2,355</u>	<u>1,623</u>

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

10. EARNINGS/(LOSSES) PER SHARE

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Earnings/(losses) per share attributable to the ordinary equity holders of the Company		
— Basic and diluted earnings/(losses) per share (expressed in HK\$ per share)	<u>(0.05)</u>	<u>150,605</u>

The calculation of the basic earnings/(losses) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company and the weighted average number of shares in issue during the period as follows:

The calculation of basic earnings/(losses) per share is based on:

	Six months ended 30 June	
	2015 (Unaudited)	2014 (Unaudited)
Profit/(loss) attributable to ordinary equity holders of the Company (HK\$'000)	<u>(7,596)</u>	<u>6,476</u>

The calculation of weighted average number of ordinary shares amounted to 168,750,000 shares (six months ended 30 June 2014: 43 shares) in issue during the Reporting Period, as adjusted to reflect the subdivision of shares on 12 June 2015 (the “**Subdivision of Shares**”) (note 15) and capitalisation issue on 8 July 2015 (the “**Capitalisation Issue**”) (note 17), is as follows:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Issue of share on 2 December 2011	1	1
Issue of shares on 31 December 2014	3,870,967	–
Effect of Subdivision of Shares	34,838,712	9
Effect of Capitalisation Issue	130,040,320	33
Weighted average number of ordinary shares	168,750,000	43

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2015 and 2014 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during the period.

11. TRADE AND BILLS RECEIVABLES

The Group’s trading terms with its customers are mainly on credit. The credit period is generally one to six months, extending up to a longer period for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	30 June	31 December
	2015	2014
	HK\$’000	HK\$’000
	(Unaudited)	(Audited)
Within 1 month	27,230	52,419
1 to 3 months	18,645	21,030
3 to 6 months	17,718	11,554
Over 6 months	31,178	18,095
	94,771	103,098

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Prepayments	57,311	36,275
Receivables from third party agents	2,175	3,035
Deposits and other receivables	9,303	5,562
	68,789	44,872
Less: impairment of other receivables	(257)	(257)
	68,532	44,615
Portion classified as non-current	(32,961)	(11,431)
Current portion	35,571	33,184

13. TRADE PAYABLES

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Within 1 month	12,691	20,614
1 to 2 months	12,360	12,710
2 to 3 months	4,144	5,500
Over 3 months	7,959	5,722
	37,154	44,546

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

14. INTEREST-BEARING BANK BORROWINGS

		30 June 2015 (Unaudited)	
	Effective interest rate (%)	Maturity	HK\$'000
Current			
Bank overdrafts — secured	4.75–6.00	On demand	21,955
Bank loans — secured	2.38–7.80	On demand/2015	178,008
Total			<u>199,963</u>
		31 December 2014 (Audited)	
	Effective interest rate (%)	Maturity	HK\$'000
Current			
Bank overdrafts — secured	4.75–6.00	On demand	16,061
Bank loans — secured	2.20–9.84	On demand/2015	166,631
Total			<u>182,692</u>

All the interest-bearing bank borrowings and overdrafts are repayable within one year or on demand as at 30 June 2015 and 31 December 2014, respectively.

Interest-bearing bank borrowings are denominated in:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
HK\$	103,265	78,788
RMB	96,698	94,928
US Dollar (“US\$”)	–	8,976
	<u>199,963</u>	<u>182,692</u>

- (a) HK Interpretation 5 “Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause” requires that a loan which includes a clause that gives the lender the unconditional right to call the loan at any time (“**repayment on demand clause**”) shall be classified in total by the borrower as current in the consolidated statements of financial position. Interest bearing bank loans of the Group in the amount of HK\$198,451,000 as at 30 June 2015 (31 December 2014: HK\$178,321,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$6,916,000 (31 December 2014: HK\$5,762,000) that are repayable after one year from the end of the Reporting Period have been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.
- (b) The Group’s bank facilities as at 30 June 2015 amounted to HK\$218,158,000 (31 December 2014: HK\$243,270,000) of which HK\$199,963,000 (31 December 2014: HK\$182,692,000) had been utilised.

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

	Carrying value	
	30 June	31 December
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Property, plant and equipment	40,491	54,355
Prepaid land lease payments	2,871	2,909
Available-for-sale investments	10,779	10,531
Inventories	37,521	37,515
Trade receivables	22,269	14,243
Pledged bank deposits	13,758	20,633
	127,689	140,186

(d) Certain of the Group's bank loans are secured by related parties of the Group (note 16(e)).

15. SHARE CAPITAL

Pursuant to an ordinary resolution passed in June 2015, the issued shares of the Company was increased from 3,870,968 to 38,709,680 by subdivision of the par value of each share of the Company originally US\$1.00 per share into US\$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

As at 30 June 2015, the Company had authorised share capital of US\$10,000,000 (31 December 2014: US\$10,000,000) divided into 100,000,000 ordinary shares with a par value of US\$0.10 each (31 December 2014: 10,000,000 ordinary shares with a par value of US\$1.00 each). As at 30 June 2015 and 31 December 2014, 38,709,680 ordinary shares were issued and fully paid up.

	Number of shares in issue	Share capital HK\$
Upon incorporation and at 1 January 2014 (Audited)	1	8
Ordinary shares issued and fully paid on 31 December 2014 (Audited)	3,870,967	30,000,000
Subdivision of shares on 12 June 2015 (Unaudited)	34,838,712	–
As at 30 June 2015 (Unaudited)	38,709,680	30,000,008

16. RELATED PARTY TRANSACTIONS

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

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

Name of related parties	Relationship
Abraham Chan	Director of the Company
Ms. Man Yee Wai, Viola (" Ms. Viola Man ")	Director of the Company
Fullgold Development Limited	Ultimate holding company
Purapharm Corporation Limited	Immediate holding company
Joint Partners Investments Limited	Company controlled by directors
Golden Gain International Limited	Company controlled by directors
Gold Sparkle Limited	Company wholly owned by a director
HerbMiners Informatics Limited	Company wholly owned by a director
Edtoma Secretarial Services Limited	Company significantly influenced by a director
CWCC Co., Limited	Company significantly influenced by a director
Gateway (Macao Commercial Offshore) Company Limited	Company significantly influenced by a director

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

		Six months ended 30 June	
		2015	2014
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Rental expenses	(i)	720	720
Software license fee and IT service fee	(ii)	286	211
Professional service fees	(iii)	292	156

Notes:

- (i) The rental expenses were paid to Golden Gain International Limited, a related company controlled by Mr. Abraham Chan and Ms. Viola Man, under prices mutually agreed by both parties. Such lease arrangement was terminated on 30 June 2015.
- (ii) The software license fee and IT service fee were paid to HerbMiners Informatics Limited, a related company controlled by Mr. Abraham Chan, under a price mutually agreed by both parties.
- (iii) The professional service fees were paid to the related companies, over which Mr. Chan Kin Man, Eddie, our non-executive director, has significant influence, under a price mutually agreed by both parties.

(c) Outstanding balances with related parties:

	30 June 2015		31 December 2014	
	Maximum balance outstanding	Maximum balance outstanding	Maximum balance outstanding	Maximum balance outstanding
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Audited)
Amount due from a director				
Mr. Abraham Chan	–	11,822	11,822	14,671
Amount due to the immediate holding company				
PP BVI	–	12,365	12,365	12,365
Amount due from a related company				
Golden Gain International Limited	–	240	240	240

Outstanding balances with related parties were unsecured, interest-free and payable on demand.

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

	Six months ended 30 June	
	2015	2014
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	5,301	4,656
Pension scheme contributions	27	24
	5,328	4,680

(e) Provision of guarantees by related parties

	30 June 2015	31 December 2014
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Bank loans guaranteed by:		
Mr. Abraham Chan, Ms. Viola Man, and PP BVI	103,266	79,503
Mr. Abraham Chan and PP BVI	–	8,260
Mr. Abraham Chan	96,698	94,894
	199,964	182,657

The above guarantees provided by the directors and related parties were subsequently released on 8 July 2015.

17. EVENT AFTER THE REPORTING PERIOD

In addition to the events disclosed in note 16(e), the following significant events of the Group occurred after the end of the reporting period:

(a) Initial public offering

On 8 July 2015 (the “**Listing Date**”), 56,250,000 new shares of US\$0.10 (HK\$0.775) each were issued at a price of HK\$5.98 per share in connection with the Company’s initial public offering on the Stock Exchange. The proceeds of HK\$43,593,750 representing the par value, were credited to the Company’s share capital. The remaining proceeds of HK\$292,781,250 (before deduction of listing expenses) were credited to the share premium account.

(b) Capitalisation issue

Pursuant to a written resolution of the shareholders of the Company passed on 12 June 2015, a total of 130,040,320 shares of US\$0.10 (HK\$0.775) each were allotted and issued at par value to the shareholders as of the date immediately before the Listing Date on a pro rata basis by way of capitalisation of US\$13,004,032 (HK\$100,781,248) from the Company’s share premium account on the Listing Date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Leveraging on its success and strong brand recognition in Hong Kong, and to capitalise on the significant growth opportunities in the Concentrated Chinese Medicine Granules (“CCMG”) product market in China, in December 2014, the Group entered into a distribution framework agreement with Sinopharm Holding Hong Kong International Limited (“**Sinopharm International**”), a Hong Kong subsidiary of Sinopharm Group Co. Ltd. (“**Sinopharm**”), which is one of the largest distributors of pharmaceutical and healthcare products in China, whereby Sinopharm International agreed to distribute the Group’s CCMG products in China. The Group’s strategic relationship with Sinopharm will allow it to leverage on Sinopharm’s strong and nationwide pharmaceutical distribution network, well-established brand name and full range of logistics services to extend its product distribution reach in China. In 2015, the Group further entered into relevant agreements with Sinopharm International and its affiliated group companies in Fujian Province and Tianjin Municipality, respectively, pursuant to which the Group granted these affiliated companies the exclusive right to sell and distribute its CCMG products in the respective sales regions.

The Group has also established its own Chinese medicine clinics in Hong Kong under the Nong’s® (農本方)® brand. As at 30 June 2015, the Group operated 14 Nong’s® (農本方)® Chinese medicine clinics (30 June 2014: 3 clinics) mainly within shopping malls across Hong Kong. The Nong’s® (農本方)® Chinese medicine clinics are operated by registered traditional Chinese medicine practitioners who use the Group’s system to prescribe its CCMG products to patients.

PROSPECTS

To fuel future growth, the Group will continue to strengthen its leading position in the CCMG product market in Hong Kong and significantly expand its presence in China. In Hong Kong, the Group will expand into new sales channels by establishing Chinese medicine clinics under the Nong’s® (農本方)® brand. The Group intends to further increase the total number of Nong’s clinics in Hong Kong to 30 by the end of 2015.

Leveraging its strong brand recognition in Hong Kong as well as its competitive strengths including product quality, safety and operational expertise, the Group will continue to replicate its successful business model in the CCMG market in China. The strategic partnership with Sinopharm will enable the Group to expand its geographical reach into the new target cities to capture the tremendous opportunities.

With its proven research and development capability, the Group will maintain its leading market position through developing and commercialising new products. The clinical trial of the two new drug products, namely Ren Shu Chang Le Granules (仁術腸樂顆粒) and Puerarin Phospholipids Complex Capsules (葛根素磷脂複合物膠囊), are expected to be completed by 2020. Also, in order to drive a successful offline-to-online (O to O) business model, the Group will establish its own concept stores in Hong Kong and China to enhance its distinctive and quality brand image and to capture the immense health products market through the integrated online sales platforms.

FINANCIAL REVIEW

SALES PERFORMANCE

	Six months ended 30 June				Growth rate
	2015		2014		
	Revenue HK\$'000 (Unaudited)	% of Total	Revenue HK\$'000 (Unaudited)	% of Total	
China CCMG	82,867	44.4%	64,659	41.6%	28.2%
Hong Kong CCMG	72,217	38.6%	68,566	44.1%	5.3%
Chinese healthcare products	26,179	14.0%	20,437	13.1%	28.1%
Nong's® (農本方)® Chinese medicine clinics	5,639	3.0%	1,944	1.2%	190.1%
Total	<u>186,902</u>	<u>100.0%</u>	<u>155,606</u>	<u>100.0%</u>	20.1%

The Group's solid revenue growth for the six months ended 30 June 2015 demonstrates its ability to capitalise its leading market position in Hong Kong and places the Group in a strong position to take advantage of the significant business opportunities in China arising from the fast growing CCMG product and Chinese healthcare product markets. During the six months ended 30 June 2015, sales volume of the Group's CCMG products sold to its direct sales customers comprising approved hospitals and medical institutions in China increased as these customers prescribed more of the Group's products to patients, while the total number of the Group's China direct sales customers remained stable during such period. Sales volume of the Group's CCMG products sold to its distributors in China also increased as the result of its consolidation of distribution network in 2014 and more effective product distribution in the region, while the Group's CCMG product prices and the total number of its China distributors remained stable during such period.

PROFITABILITY

	Six months ended 30 June		Growth Rate
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	
Revenue	186,902	155,606	20.1%
Cost of sales	<u>(67,902)</u>	<u>(57,165)</u>	18.8%
Gross profit	<u>119,000</u>	<u>98,441</u>	20.9%
Gross profit margin	<u>63.7%</u>	<u>63.3%</u>	

The Group's gross profit margin for the six months ended 30 June 2015 was approximately 63.7%, representing a slight increase of 40 basis points over the last corresponding period. The increase in the Group's gross profit margin was mainly attributable to the increase in portion of revenue generated from Chinese healthcare products and Nong's® (農本方)® Chinese medicine clinics from which the Group generated higher gross profit margin.

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 six months ended 30 June 2015, the Group's other income and gain was HK\$3.0 million, representing an increase of HK\$1.2 million or 64.6% compared to HK\$1.8 million for the corresponding period of last year. The increase was mainly due to the increase in government grants received and gain from sales of equipment and accessories.

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 six months ended 30 June 2015, the Group's selling and distribution expenses was HK\$58.0 million, representing an increase of HK\$11.0 million or 23.4% compared to HK\$47.0 million for the corresponding period of last year. The increase was mainly attributable to (i) increased advertising and promotional activities to strengthen the promotion of the Group's products and brands, and (ii) increase in our in-house sales and marketing personnel head count to strengthen our sales team for business development. For the six months ended 30 June 2015, selling and distribution expenses as a percentage to revenue remained stable as 31.0%, as compared to 30.2% for the corresponding period of last year.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses mainly comprised of staff costs, research and development costs, rental expenses, legal and professional fees, listing expenses, clinic management fee, depreciation and amortisation, and other general administrative expenses. For the six months ended 30 June 2015, the Group's administrative expenses was HK\$61.9 million, representing an increase of HK\$24.8 million or 67.0% compared to HK\$37.1 million for the corresponding period of last year. The increase was mainly attributable to (i) an one-off listing expense of HK\$17.2 million, and (ii) increase in clinic management fee and rental expenses in relation to the Group's Nong's® (農本方)® Chinese medicine clinics as the Group operated 14 clinics for the period under review, as compared to three for the corresponding period of last year.

OTHER EXPENSES

The Group's other expenses mainly comprised of voluntary charity donation, foreign exchange loss and miscellaneous expenses. The Group's other expenses remained stable during the period under review as compared to the corresponding period of last year.

FINANCE COSTS

For the six months ended 30 June 2015, the Group's finance costs amounted to HK\$6.0 million, representing a decrease of HK\$0.7 million or 9.6% as compared to HK\$6.7 million for the correspondence period of last year. The decrease was mainly due to the decrease in average monthly outstanding bank borrowings during the six months ended 30 June 2015 as compared to the corresponding period of last year.

INCOME TAX EXPENSE

For the six months ended 30 June 2015, the Group's income tax expenses amounted to HK\$2.4 million, representing an increase of HK\$0.8 million or 45.1% as compared to HK\$1.6 million for the correspondence period of last year. The increase was mainly due to the increase in taxable profit arising from China operation.

CAPITAL EXPENDITURE

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. During the six months ended 30 June 2015, the total capital expenditure was HK\$31.6 million (six months ended 30 June 2014: HK\$2.4 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2015, the Group had net current liabilities of HK\$12.1 million, as compared to net current assets of HK\$23.0 million as at 31 December 2014. The net current liabilities was mainly due to (i) the prepayment of HK\$18.7 million which was made for the acquisition of a land parcel to expand our manufacturing facilities in Nanning, and (ii) listing expenses of HK\$17.2 million incurred for the period under review.

As at 30 June 2015, the Group's bank and cash balance including pledged bank deposits amounted to HK\$36.2 million (31 December 2014: HK\$67.4 million), and interest-bearing bank borrowings amounted to HK\$200.0 million (31 December 2014: HK\$182.7 million). As at 30 June 2015, the Group's unused bank facilities amounted to HK\$18.2 million.

GEARING RATIO

As at 30 June 2015, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank borrowings by total equity, increased to 1.6 from 1.3 as at 31 December 2014. The increase was primarily due to additional loans taken by the Group and decrease in total equity resulting from the loss during the period under review.

EXCHANGE RISK

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

CAPITAL COMMITMENTS

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Lands and buildings	50,891	69,608
Machineries and equipment	5,612	888
	56,503	70,496

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2015.

HUMAN RESOURCES

As at 30 June 2015, the Group had a total of 440 employees (31 December 2014: 422 employees). During the six months ended 30 June 2015, total staff cost excluding Directors' remuneration was HK\$42.5 million (six months ended 30 June 2014: HK\$32.9 million). The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance. The Group also allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

USE OF PROCEEDS

The shares of the Company (the “**Shares**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 8 July 2015 (the “**Listing Date**”). Net proceeds from the global offering were approximately HK\$290.2 million after deducting the underwriting commission and relevant expenses. The Company intends to use such proceeds in the manner consistent with that disclosed in the section headed “Future Plans and Use of Proceeds” of the Company's prospectus dated 25 June 2015. As at the date of this interim report, the proceeds from the global offering has not been fully utilised.

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the “**Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rule**”). From the Listing Date and up to the date of this announcement, save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

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

AUDIT COMMITTEE

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

REVIEW OF THE INTERIM RESULTS

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015 has been reviewed by the auditors of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 — “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015 has also been reviewed and passed by the Audit Committee.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions of the Company by the Directors. All Directors confirmed that, having made specific enquiries to all Directors, they have complied with the required standard set out in the Model Code from the Listing Date up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Save for the capitalisation issue which took place immediately before the listing of the Shares on the Main Board of the Stock Exchange, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities since the Listing Date up to the date of this announcement.

INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2015.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2015 containing all the information required by the Listing Rules is to be dispatched to the shareholders of the Company and made available for review on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com in due course.

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

Hong Kong, 24 August 2015

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