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 2017

FINANCIAL HIGHLIGHTS

	Six months ended 30 June			
	2017	2016	**Change**	
	HK$'000	*HK$'000*	*HK$'000*	*%*
	(Unaudited)	(Unaudited)		
Revenue				
China CCMG	**95,616**	87,106	8,510	9.8
Hong Kong CCMG	**86,772**	80,329	6,443	8.0
Chinese healthcare products	**34,076**	22,653	11,423	50.4
Nong's® (農本方®) Chinese medicine clinics	**36,303**	22,161	14,142	63.8
Plantation	**10,326**	–	10,326	N/A
	263,093	212,249	50,844	24.0
Gross profit	**180,868**	141,608	39,260	27.7
Profit for the period attributable to owners of the parent	**9,138**	8,285	853	10.3

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 2017 (the "**Reporting Period**") as follows.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
	Notes	**2017** ***HK$'000*** **(Unaudited)**	2016 *HK$'000* (Unaudited)
REVENUE	*5*	**263,093**	212,249
Cost of sales		**(82,225)**	(70,641)
Gross profit		**180,868**	141,608
Other income and gains	*5*	**7,546**	6,943
Selling and distribution expenses		**(80,606)**	(65,496)
Administrative expenses		**(85,790)**	(66,271)
Other expenses		**(1,192)**	(1,804)
Finance costs		**(7,039)**	(4,594)
PROFIT BEFORE TAX	*6*	**13,787**	10,386
Income tax expense	*7*	**(4,649)**	(2,101)
PROFIT FOR THE PERIOD		**9,138**	8,285
Attributable to owners of the parent		**9,138**	8,285
EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY (expressed in HK cents per share)			
Basic			
— For profit for the period	*9*	**4.0**	3.7
Diluted			
— For profit for the period	*9*	**4.0**	3.7

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**9,138**	8,285
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**191**	174
Income tax effect	**(32)**	(29)
	159	145
Exchange differences on translation of foreign operations	**7,970**	(4,654)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**8,129**	(4,509)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**17,267**	3,776
Attributable to owners of the parent	**17,267**	3,776

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2017** ***HK$'000*** **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**230,201**	117,383
Prepaid land lease payments		**37,895**	23,070
Other intangible assets		**30,482**	26,470
Available-for-sale investments		**13,951**	13,760
Prepayments for non-current assets	*12*	**27,061**	8,845
Deferred tax assets		**14,341**	12,200
Goodwill	*10*	**148,397**	–
Total non-current assets		**502,328**	201,728
CURRENT ASSETS			
Inventories		**226,127**	167,064
Biological assets		**13,926**	–
Trade and bills receivables	*11*	**295,737**	231,689
Prepayments, deposits and other receivables	*12*	**53,097**	39,638
Pledged bank deposits		**9,076**	11,000
Cash and cash equivalents		**156,650**	209,129
Total current assets		**754,613**	658,520
CURRENT LIABILITIES			
Trade payables	*13*	**71,655**	74,191
Other payables and accruals		**93,166**	58,341
Interest-bearing bank and other borrowings	*14*	**417,719**	261,048
Tax payable		**3,289**	7,227
Government grants		**1,160**	1,953
Total current liabilities		**586,989**	402,760
NET CURRENT ASSETS		**167,624**	255,760
TOTAL ASSETS LESS CURRENT LIABILITIES		**669,952**	457,488

	Notes	**30 June 2017** *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**669,952**	457,488
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*14*	**119,764**	–
Government grants		**1,903**	1,399
Deferred tax liabilities		**2,694**	1,584
Total non-current liabilities		**124,361**	2,983
Net assets		**545,591**	454,505
EQUITY			
Equity attributable to owners of the parent			
Share capital	*15*	**191,981**	174,375
Shares held for share award scheme	*16*	**(10,019)**	(10,019)
Reserves		**363,629**	290,149
Total equity		**545,591**	454,505

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND REORGANISATION

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

The Company is an investment holding company. During the six months ended 30 June 2017 the Group was principally engaged in the research, development, production and sale of concentrated Chinese medicine granule ("**CCMG**") products and Chinese healthcare products, as well as rendering of Chinese medical diagnostic services. After the acquisition of a plantation business in April 2017 (note 17), the Group's activities also include plantation and trading of raw Chinese herbs, and manufacturing and sales of Traditional Chinese Medicine ("**TCM**") decoction pieces ("中藥飲片").

In the opinion of the Directors, the ultimate holding company is Fullgold Development Limited, which was incorporated in BVI and is wholly owned by Mr. Abraham, Chan Yu Ling ("**Mr. Abraham Chan**"), the founder of the Group.

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 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 and International Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

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 Group's annual financial statements as at 31 December 2016.

They have been prepared under the historical cost convention, except for available-for-sale investments and biological assets, which have been measured at fair value. The unaudited interim condensed consolidated financial statements are 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 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017.

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 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in Annual Improvements 2014–2016 Cycle	*Disclosure of Interests in Other Entities*

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. 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 and China;

(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 manufacturing and sales of TCM decoction pieces.

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 after tax. The adjusted profit or loss after tax is measured consistently with the Group's profit after tax except government grants, interest income, net foreign exchange gain/(loss), 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 2017 and 2016.

Six months ended 30 June 2017 (Unaudited)

	China CCMG *HK$'000*	Hong Kong CCMG *HK$'000*	Chinese healthcare products *HK$'000*	Clinics *HK$'000*	Plantation *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue:							
Revenue to external customers	95,616	86,772	34,076	36,303	10,326	–	263,093
Intersegment sales	61,249	6,599	1,132	–	1,213	(70,193)	–
	156,865	93,371	35,208	36,303	11,539	(70,193)	263,093
Segment results	16,594	24,146	1,038	(1,116)	962	–	41,624
Reconciliations:							
Government grants							3,415
Interest income							261
Foreign exchange gain							2,671
Finance costs							(7,039)
Corporate and other unallocated expenses							(27,145)
Profit before tax							13,787
Income tax expense							(4,649)
Net profit							9,138
Other segment information:							
Depreciation and amortisation	5,706	1,307	821	2,806	257	–	10,897
Provision for impairment of inventories	498	–	–	–	–	–	498

Six months ended 30 June 2016 (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	87,106	80,329	22,653	22,161	–	212,249
Intersegment sales	51,875	4,607	1,121	–	(57,603)	–
	138,981	84,936	23,774	22,161	(57,603)	212,249
Segment results	15,042	23,276	266	(4,925)	–	33,659
Reconciliations:						
Government grants						4,969
Interest income						431
Foreign exchange loss						(610)
Finance costs						(4,594)
Corporate and other unallocated expenses						(23,469)
Profit before tax						10,386
Income tax expense						(2,101)
Net profit						8,285
Other segment information:						
Depreciation and amortisation	4,552	1,191	941	1,541	–	8,225
Provision for impairment of inventories	241	–	–	–	–	241

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sales of CCMG and Chinese healthcare products	**243,026**	206,592
Rendering of Chinese medical diagnostic services	**9,741**	5,657
Sales of raw Chinese herbs	**10,326**	–
	263,093	212,249
Other income and gains		
Government grants*	**3,415**	4,969
Foreign exchange gain, net	**2,671**	–
Gain from the sale of equipment and accessories	**1,107**	1,319
Bank interest income	**261**	431
Others	**92**	224
	7,546	6,943

* 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 finance cost, research and development costs and grants for improvement of our research facilities in relation to certain research and development projects.

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**77,581**	67,862
Cost of services provided	**4,644**	2,779
Depreciation	**9,143**	6,846
Amortisation of intangible assets	**1,460**	1,110
Amortisation of prepaid land lease payments	**294**	269
Research and development costs*	**9,083**	8,213
Minimum lease payments under operating leases:		
Office equipment	**77**	331
Land and buildings	**16,020**	9,113
	16,097	9,444
Auditors' remuneration	**1,303**	1,163
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	**46,981**	47,974
Pension scheme contributions	**6,667**	5,419
Equity-settled share award expense	**98**	–
	53,746	53,393
Foreign exchange (gain)/loss, net**	**(2,671)**	610
Write-down of inventories to net realisable value***	**498**	241
Loss on disposal of items of property, plant and equipment	**38**	36

* Included in the research and development costs, there are expenditure of HK$307,000 (six months ended 30 June 2016: HK$323,000) disclosed in the item of "depreciation" and HK$4,563,000 (six months ended 30 June 2016: HK$4,137,000) disclosed in the item of "employee benefit expenses" for the six months ended 30 June 2017.

** The foreign exchange gain and foreign exchange loss is included in "Other income" and "Other expenses" in the interim condensed consolidated statements 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.

7. 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 and U.S. profit tax have been provided at the rate of 16.5% and 40.0% on the estimated assessable profits arising in Hong Kong and U.S. during the Reporting Period, respectively. 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 ("**PuraPharm Nanning**") 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current	**4,859**	2,667
Deferred	**(210)**	(566)
Total tax charge for the period	**4,649**	2,101

8. DIVIDEND

The 2016 proposed final dividends of HK2.02 cents per share (2015: HK8.89 cents per share) has been approved by shareholders at the annual general meeting on 26 May 2017 and were subsequently distributed in June 2017.

The net dividends of HK$4,942,000 (2015: HK$19,936,000), after deducting dividends of HK$62,000 (2015: HK$67,000) paid to the share award scheme (note 16(b)) which is treated as transaction with owners of the parent in the condensed consolidated statement of changes in equity during the reporting period.

No interim dividend was proposed for the six months ended 30 June 2017.

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2017 excluding ordinary shares purchased by the Group and held for Award Scheme (note 16(b)).

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Profit attributable to the owners of the parent (*HK$'000)*	**9,138**	8,285
Weighted average number of ordinary shares in issue during the period	**231,141,476**	224,700,846
Basic earnings per share (*expressed in HK cents per share)*	**4.0**	3.7

(b) Diluted

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Profit attributable to the owners of the parent (*HK$'000)*	**9,138**	8,285
Weighted average number of ordinary shares in issue during the period	**231,141,476**	224,700,846
Adjustment for Award Shares (*note 16* (*b*))	**169,890**	–
Weighted average number of ordinary shares for diluted earnings per share calculation	**231,311,366**	224,700,846
Diluted earnings per share (*expressed in HK cents per share)*	**4.0**	3.7

10. GOODWILL

	2017
	HK$'000
	(Unaudited)
At 1 January	–
Acquisition of subsidiaries *(note 17)*	**148,397**
At 30 June 2017	**148,397**

Impairment testing of goodwill

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

- Plantation CGU; and
- Chinese herbal products CGU.

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

	30 June 2017
	HK$'000
	(Unaudited)
Plantation CGU	**134,692**
Chinese herbal products CGU	**13,705**
	148,397

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projection based on financial budgets or forecasts approved by management covering a period of 5 to 9 years. The growth rates used to extrapolate the cash flows beyond the period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

The post-tax discount rates applied to cash flow projections and the growth rates used to extrapolate cash flows beyond the 5 to 9 year period are as follows:

	30 June 2017	
	Growth Rate	**Post-tax Discount Rate**
Plantation CGU	**2.5%**	**18%**
Chinese herbal products CGU	**2.3%**	**15%**

Assumptions were used in the value in use calculation of each CGU as at 30 June 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

Budgeted sales amounts — The budgeted sales amounts are based on the historical sales data and market outlook perceived by management.

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

Post-tax discount rates — The discount rates used should reflect specific risks relating to the relevant CGUs.

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

The values assigned to the key assumptions on market development of the CGUs, discount rates and raw materials purchase prices are consistent with external information sources.

In the opinion of the directors of the Company, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of each CGU to exceed its recoverable amount.

11. TRADE AND BILLS RECEIVABLES

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**297,063**	234,652
Bills receivables	**3,328**	1,554
	300,391	236,206
Less: impairment of trade and bills receivables	**(4,654)**	(4,517)
	295,737	231,689

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

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

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 1 month	**58,230**	124,199
1 to 3 months	**65,918**	42,690
3 to 6 months	**40,781**	24,841
Over 6 months	**130,808**	39,959
	295,737	231,689

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 *HK$'000* (Unaudited)	31 December 2016 *HK$'000* (Audited)
Prepayments	**55,681**	26,919
Receivables from third party agents	**2,339**	6,826
Deposits and other receivables	**22,381**	14,973
	80,401	48,718
Less: impairment of other receivables	**(243)**	(235)
	80,158	48,483
Portion classified as non-current	**(27,061)**	(8,845)
Current portion	**53,097**	39,638

13. TRADE PAYABLES

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

	30 June 2017 *HK$'000* (Unaudited)	31 December 2016 *HK$'000* (Audited)
Within 1 month	**26,233**	35,736
1 to 2 months	**14,386**	22,687
2 to 3 months	**5,715**	12,747
Over 3 months	**25,321**	3,021
	71,655	74,191

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 AND OTHER BORROWINGS

	30 June 2017 (Unaudited)		
	Effective interest rate *(%)*	**Maturity**	***HK$'000***
Current			
Bank loans — secured	**3.75–5.22**	**On demand**	**152,433**
Bank loans — unsecured	**1.85–6.00**	**On demand**	**253,199**
Bank loans — unsecured	**2.20–2.95**	**2018**	**12,087**
			417,719
Non-current			
Bank loans — secured	**2.20–2.95**	**2022**	**85,264**
Other borrowing — secured	**8.00**	**2021**	**34,500**
			119,764
Total			**537,483**

	31 December 2016 (Audited)		
	Effective interest rate *(%)*	Maturity	*HK$'000*
Current			
Bank loans — secured	2.70–5.22	On demand	109,270
Bank loans — unsecured	1.90–6.00	On demand	151,778
Total			261,048

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Analysed into:		
Bank loans and other borrowings payable:		
Within one year or on demand	**417,719**	261,048
In the second year	**19,898**	–
In the third to fifth years, inclusive	**99,866**	–
	537,483	261,048

Interest-bearing bank and other borrowings are denominated in:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
HK$	**374,550**	166,778
RMB	**162,933**	94,270
	537,483	261,048

(a) HK Interpretation 5 "Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" requires that a loan which includes a clause that gives the lender the unconditional right to call the loan at any time ("**repayment on demand clause**") shall be classified in total by the borrower as current in the condensed consolidated statements of financial position. Interest-bearing bank loans of the Group include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$11,173,000 (31 December 2016: HK$4,481,000) 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) As at 30 June 2017, the Group's bank facilities including overdraft amounting to HK$666,510,000 (31 December 2016: HK$458,595,000) of which HK$502,983,000 (31 December 2016: HK$261,048,000) had been utilised.

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

	Carrying value	
	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**103,077**	54,124
Prepaid land lease payments	**16,550**	2,779
Available-for-sale investments	**2,604**	2,570
Inventories	**40,250**	39,022
Trade receivables	**76,751**	–
Pledged bank deposits	**9,076**	11,000
	248,308	109,495

15. SHARE CAPITAL

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Authorised:		
50,000,000,000 ordinary shares of US$0.1 (HK$0.775) each	**38,750,000**	38,750,000
Issued and fully paid: 247,717,920 (31 December 2016: 225,000,000) ordinary shares of US$0.1 (HK$0.775) each	**191,981**	174,375

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

	Number of shares in issue	**Share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 31 December 2016 and 1 January 2017	225,000,000	174,375	150,616	324,991
Issue of ordinary shares for the equity consideration for acquisition of subsidiaries *(note 17)*	22,717,920	17,606	60,998	78,604
Final 2016 dividend	–	–	(4,942)	(4,942)
At 30 June 2017	247,717,920	191,981	206,672	398,653

16. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME

(a) Share option scheme

The Company operates a share option scheme (the "**Option Scheme**") for the purpose to recognise and acknowledge the contributions that the eligible participants of the Option Scheme had or may have made to the Company. Eligible participants of the Option Scheme include any full-time or part-time employees, executives or officers of the Company and its subsidiaries, directors (including independent non-executive directors) of the Company and its subsidiaries and advisers, consultants, supplier, customers, distributors and other persons upon the terms set out in the Option Scheme (the "**Eligible Option Participants**"). The Option Scheme was adopted pursuant to the resolutions of the Company's shareholders passed on 12 June 2015 (the "**Adoption Date**") and shall be valid and effective for a period of 10 years commencing on the Adoption Date.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the Listing Date (i.e., 22,500,000 shares) unless the Company obtains approval from its shareholders in general meeting and/or such other requirements prescribe under the Listing Rules and must not exceed 30% of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue, unless approval of the Company's shareholders in general meeting and/or such other requirements prescribe under the Listing Rules is obtained.

The amount payable by the grantee on application or acceptance of an option shall be HK$1.00. The period within which the shares must be taken up under an option shall be determined by the Board at its absolute discretion and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Option Scheme.

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

Since the adoption of the Option Scheme on 12 June 2015, no options have been granted pursuant to the Option Scheme.

(b) Shares held for the share award scheme

The Board has adopted a Share Award Scheme on 22 February 2016 (the "**Award Scheme**") in which any employee and non-executive director of the Company and/or any member of the Group who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any member of the Group (the "**Eligible Award Participants**") will be entitled to participate. The purposes of the Award Scheme are:

1. to recognise and motivate the contributions by certain Eligible Award Participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;
2. to attract suitable personnel for further development of the Group; and
3. to provide certain Eligible Award Participants with a direct economic interest in attaining a long-term relationship between the Group and certain Eligible Award Participants.

The Group has set up a trust (the "**Share Award Scheme Trust**") for the purpose of administrating the Share Award Scheme. The Share Award Scheme Trust will acquire the Company's shares from the Stock Exchange, with a maximum number determined by the Board, and hold the shares granted to the employees but not vested for the employees until they are vested. Unless early terminated by the Board, the Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date. The Board has further resolved in February 2016 that a sum of HK$10,000,000 be provided for the purchase of the Shares to be awarded to the Eligible Award Participants to be selected by the Board.

During the six months ended 30 June 2017, no share was purchased by the Share Award Scheme Trust shares through the Stock Exchange and received cash dividend of HK$62,000 (2016: HK$67,000) which will be used to pay for the fees of the trust or acquire the Company's own ordinary shares.

As at 30 June 2017, the Share Award Scheme Trust holds 3,021,000 (31 December 2016: 3,021,000) shares of the Company.

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

Summary of particulars of the Award Shares granted is as follows:

				Number of Awarded Shares	
Date of Grant	Number of outstanding Awarded Shares as at the Date of Grant	Fair value	Vesting Date	Vested during the period	Outstanding as at 30 June 2017
		HK$'000			
16 June 2017	615,000	2,295	16 June 2018	–	615,000
16 June 2017	410,000	1,529	16 June 2019	–	410,000
16 June 2017	410,000	1,529	16 June 2020	–	410,000
16 June 2017	410,000	1,529	16 June 2021	–	410,000
16 June 2017	205,000	765	16 June 2022	–	205,000
	2,050,000	7,647		–	2,050,000

The Group recognised a share award expense of HK$157,000 during the six months ended 30 June 2017.

17. BUSINESS COMBINATIONS

On 7 March 2017, the Group completed the acquisition of 100% equity interest of K'an Herb Company, Inc. ("**Kan**") at a total cash consideration of US$5.4 million (equivalent to approximately HK$42.0 million). Kan was incorporated in Santa Cruz, California, U.S. and is principally engaged in manufacturing of Chinese herbal products in U.S. and sales to distributors and healthcare practitioners in U.S. and Europe.

Acquisition of Kan allows the Group leverage on the expertise, resources, and sale network of Kan to develop its business in the U.S. market immediately. The acquisition can also create synergies with its existing products and expand the products portfolio of the Group's Chinese medicine products to increase the competitiveness of the Group in the market.

On 19 April 2017, the Group completed the acquisition of 100% equity interest of Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. (the "**Plantation Subsidiaries**") at a total consideration of RMB190.0 million, which was settled by a combination of cash in the amount of RMB100.7 million (equivalent to approximately HK$115.3 million) and allotments of 22,717,920 shares of the Company's shares at fair value of HK$78,604,000.

The Plantation Subsidiaries are engaged in plantation and trading of raw Chinese herbs and manufacturing and sale of TCM decoction pieces. The acquisition of Plantation Subsidiaries will allow the Group to vertically integrate the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of ensuring a stable supply of high-quality raw Chinese herbs at a lower cost. One of the current expansion plans and business strategies of the Group is to expand into the TCM decoction pieces business which is highly complementary to its existing CCMG business. The acquisition will allow the Group to immediately enter into the TCM decoction pieces industry and the expanded comprehensive product mix of the Group's CCMG, over-the counter Chinese healthcare products and TCM decoction pieces will highly improve the competitiveness of the Group in the market.

The fair values of the identifiable assets and liabilities of Kan and Plantation Subsidiaries as at the respective acquisition dates were as follows:

	Fair value recognised on acquisition date	
	Kan	**Plantation Subsidiaries**
	HK$'000	*HK$'000*
Property, plant and equipment	3,493	94,189
Other intangible assets	–	362
Prepaid land lease payments	–	14,510
Deferred tax assets	–	1,514
Prepayment, deposit and other receivables	1,330	22,890
Inventories	19,301	21,225
Biological assets	–	13,243
Trade receivables	2,794	38,230
Cash and bank balances	5,031	2,643
Trade and bills payables	(1,056)	(18,424)
Tax payable	(26)	–
Other payables	(1,268)	(96,208)
Interest-bearing bank and other borrowings	–	(34,344)
Government grants	–	(637)
Deferred tax liabilities	(1,293)	–
Total identifiable net assets at fair value	28,306	59,193
Goodwill on acquisition	13,705	134,692
Satisfied by:		
Cash	42,011	115,281
Equity instruments	–	78,604
	42,011	193,885

The purchase price allocation of Kan and Plantation Subsidiaries are still preliminary, pending the finalisation of valuation of certain assets and the determination of the tax basis of the assets and liabilities acquired.

The fair value of the 22,717,920 ordinary shares issued as part of the consideration was based on the closing price of HK$3.46 per share on 19 April 2017.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$41,024,000 and HK$ 11,668,000, respectively. The gross contractual amounts of trade receivables and other receivables were HK$ 41,024,000 and HK$ 11,668,000, respectively, none of which are expected to be uncollectible.

During the six months ended 30 June 2017, the Group incurred transaction costs of HK$3.5 million for above acquisitions. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

The fair value of the acquired identifiable intangible assets of HK$362,000 (representing computer software) is based on valuation report issued by independent valuer.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	Kan *HK$'000* (Unaudited)	Plantation Subsidiaries *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Cash consideration	(42,011)	(115,281)	(157,292)
Cash and bank balances acquired	5,031	2,643	7,674
Net outflow of cash and cash equivalents included in cash flows from investing activities	(36,980)	(112,638)	(149,618)

Since the acquisition, the Kan and the Plantation subsidiaries contributed HK$9,787,000 and HK$10,326,000 to the Group's revenue and contributed a loss of HK$47,000 and a gain of HK$880,000 to the consolidated profit for the six months ended 30 June 2017, respectively.

Had the combinations taken place at the beginning of the year, the proforma revenue and profit of the Group for the six months ended 30 June 2017 would have been HK$279,861,000 and HK$8,147,000, respectively.

18. RELATED PARTY TRANSACTIONS

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

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

Name of related parties	Relationship
Mr. Abraham Chan	Director of the Company
Mr. Chan Kin Man, Eddie ("**Mr. Eddie Chan**")	Non-executive director of the Company
HerbMiners Informatics Limited ("**HerbMiners**")	Company controlled by a director
Edtoma Corporate Services Limited	Company significantly influenced by a non-executive director
CWCC Co., Limited	Company significantly influenced by a non-executive director
Gateway (Macao Commercial Offshore) Company Limited	Company significantly influenced by a non-executive director
*Gold Sparkle (Guizhou) DZ Plantation Co. Ltd. ("**Gold Sparkle DZ**")	Company controlled by a director
*Gold Sparkle (Guizhou) HZ Plantation Co. Ltd. ("**Gold Sparkle HZ**")	Company controlled by a director

* Gold Sparkle DZ and Gold Sparkle HZ were no longer the Group's related parties following the Group's acquisition of 100% of their equity interest on 19 April 2017.

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

		Six months ended 30 June	
		2017	2016
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Software license fee and IT service fee	*(i)*	**–**	781
Acquisition of other intangible assets	*(ii)*	**–**	8,561
Purchase of raw materials	*(iii)*	**462**	6,824
Professional service fees	*(iv)*	**328**	371
Acquisition of subsidiaries	*(v)*	**193,885**	–

Notes:

(i) The software license fee and IT service fee were paid to HerbMiners, a related company controlled by Mr. Abraham Chan, under prices mutually agreed by both parties. The Directors consider that the service charges were in line with those offered by the supplier to its other customers. Since the Group acquired the software license from HerbMiners in March 2016, no further software license fee and IT service fee was paid to HerbMiners subsequently.

(ii) The acquisition of other intangible assets represented transfer of the titles, interests and rights of the two Chinese medicines management software developed by HerbMiners to the Group. The consideration for the acquisition was determined after arm's length negotiation with reference to the appraised value determined by an independent third party valuer.

(iii) The purchase of raw materials was made from Gold Sparkle DZ, a related company controlled by Mr. Abraham Chan, under prices mutually agreed by both parties. The Directors consider that the purchases of raw materials were made according to the prices and conditions similar to those offered to the other suppliers of the Group. Following the Group's acquisition of 100% equity interest in Gold Sparkle DZ, on 19 April 2017, Gold Sparkle DZ become a wholly-owned subsidiary of the Group and the transaction after the acquisition is not related party transaction.

(iv) The professional service fees were paid to the related companies, over which Mr. Eddie Chan, has significant influence, under a price mutually agreed by both parties.

(v) During the six months ended 30 June 2017, the Group acquired Gold Sparkle DZ and Gold Sparkle HZ from a related company of which ultimate shareholders was Mr. Chan at a consideration of HK$193,885,000, based on arm's length negotiations in reference to the appraised value determined by an independent third party valuer.

(c) Outstanding balances with related parties:

	30 June 2017		31 December 2016	
		Maximum amount outstanding		Maximum amount outstanding
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Trade payables				
Gold Sparkle HZ	**–**	**–**	147	147

* The above balances were unsecured, interest-free and settled on terms of two months.

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other emoluments:		
Salaries, allowances and benefits in kind	**3,756**	5,363
Pension scheme contributions	**27**	27
Equity-settled share award expense	**59**	–
	3,842	5,390

19. EVENTS AFTER THE REPORTING PERIOD

On 14 August 2017, the Group entered into share purchase agreements with all the shareholders of SODX Co., Ltd. ("**SODX**") in relation to the Company's acquisition of entire issued and outstanding shares of SODX at a total cash consideration of JPY244.0 million (equivalent to approximately HK$17.1 million). SODX was incorporated in Japan and is principally engaged in manufacturing and sales of health food in Japan. The acquisition of SODX has yet to be completed as at the date of this announcement. Details of the acquisition of SODX have been set out in the Company's announcements dated 14 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The first half of 2017 proved to be a fruitful period for the Company in the continuing development of Chinese Medicine and clinic business. In July 2017, the Group opened its first-ever Nong's Chinese Medicine Clinic in Mainland China. The Group has recently obtained the Certificate for Medical Institutions to Practice from the National Health and Family Planning Commission of Guangxi Zhuang Autonomous Region, and is the first Hong Kong-funded medical institution to be granted approval to operate in Guangxi under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("**CEPA**"). The Group intends to speed up its pace in opening Nong's® Chinese medicine clinics in Mainland China by capitalising on its extensive clinical experience and providing unique Chinese medicine diagnosis and treatment services, as well as applying healthcare and medical big data to deliver advances in Chinese medicine diagnosis and treatment services to local residents. As at the date of this report, the Group operates 62 Nong's® (農本方®) clinics and continues to be the largest Chinese medicine clinic chain in Hong Kong.

In March 2017, the Group acquired a company in the U.S. which engaged in manufacturing of Chinese herbal formulas in U.S. and sales to distributors and healthcare practitioners in U.S. and Europe. The strategic acquisition of the healthcare products company in the U.S., which is in line with the Group's core value of Chinese medicine modernised and internationalised. The acquisition will enable the Group to expand the operation in the market, which in turn will become an important growth driver. Going forward, the Group will continue to promote modernisation and internationalisation of Chinese Medicine and enhance the brand awareness of both PuraPharm and Nong's® to capture the huge demand for Chinese medicine at home and abroad.

Furthermore, the Group entered into agreements on August 2017 to acquire SODX Co., Ltd. ("**SODX**"), which is certified by the Japanese Institute for Health Food Standards as Good Manufacturing Practice ("**GMP**") health products manufacturer. The acquisition will provide the Group with a cost-and time-effective means of developing its health food business, leveraging SODX's expertise and resources. SODX's manufacturing plant at Japan will serve as a pilot factory to transfer the latest technological know-how from Japan to further improve the quality and production efficiency of the Group's Chinese healthcare products. The pilot factory will also act as the Group's new product development centre for business expansion.

To fuel future growth, the Group continues to strengthen its leading position in the Concentrated Chinese Medicine Granules ("**CCMG**") product market in Hong Kong and significantly expand its presence in Mainland China. Furthermore, the Group vertically integrates the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of ensuring a stable supply of high-quality raw Chinese herbs at a lower cost. One of the current expansion plans and business strategies of the Group is to expand into the Traditional Chinese Medicine ("**TCM**") decoction pieces business which is highly complementary to its existing CCMG business. The recent acquisition of plantation business at Guizhou will allow the Group to immediately enter into the TCM decoction pieces industry. The optimised product mix of the Group's existing CCMG and over-the-counter Chinese healthcare products as well as TCM decoction pieces greatly improve the competitiveness of the Group.

FINANCE REVIEW

Sales performance

	Six months ended 30 June				
	2017		2016		
	Revenue *HK$000*	**% of total**	Revenue *HK$000*	% of total	**Growth rate**
China CCMG	**95,616**	**36.3%**	87,106	41.0%	9.8%
Hong Kong CCMG	**86,772**	**33.0%**	80,329	37.9%	8.0%
Chinese Healthcare products	**34,076**	**13.0%**	22,653	10.7%	50.4%
Nong's® (農本方®) Chinese medicine clinics	**36,303**	**13.8%**	22,161	10.4%	63.8%
Plantation	**10,326**	**3.9%**	–	–	N/A
Total	**263,093**	**100.0%**	212,249	100.0%	24.0%

The Group's revenue for the six months ended 30 June 2017 was HK$263.1 million, representing an increase of HK$50.8 million or 24.0% compared to HK$212.2 million for the corresponding period of last year. The revenue growth was mainly attributable to the moderate growth of the Group's CCMG products in both Mainland China and Hong Kong market, fast expansion of the Group's Nong's® (農本方®) Chinese medicine clinics in Hong Kong, and the revenue contribution from the newly acquired plantation business and Chinese herbal products business from a U.S. company.

China CCMG

For the six months ended 30 June 2017, the sales of CCMG in China was HK$95.6 million, representing an increase of HK$8.5 million or 9.8% compared to HK$87.1 million for the corresponding period of last year. The depreciation of Renminbi ("**RMB**") against Hong Kong dollar during the six month period ended 30 June 2017 against the corresponding period of last year has impeded the revenue growth of China CCMG reporting in Hong Kong dollar. The revenue growth of China CCMG sales denominated in RMB increased by 15.1% as compared to the corresponding period of the year. The increase was mainly attributed to an increase in sales volume to the Group's direct sales customers.

During the six months ended 30 June 2017, the growth of the Group's sales to distributors was still influenced by the impact of "Two-Invoice System" policy implemented in the PRC pharmaceutical industry in 2016, which aims to reduce the number of layer of distributors between pharmaceutical manufacturers and medical institutions. To mitigate the risk of lower sales growth to the distributors, the Group had restructured its sales force and resource to be more focus on the direct sales customers in the target regions of Mainland China since 2016. As a result of such direct sales focus strategy, the revenue growth for direct sales customers during the six months ended 30 June 2017 recorded more than 20% revenue growth to the direct sales comparing to the corresponding period of last year, and the revenue contribution from the sales to direct sales customers accounted for more than 60% of the total China CCMG sales.

HK CCMG

The Group continued to maintain its leading market position in Hong Kong and recorded a steady growth of revenue from the direct sales of CCMG products to its customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the six months ended 30 June 2017, the direct sales of CCMG products in Hong Kong was HK$86.8 million, representing an increase of HK$6.4 million or 8.0% compared to HK$80.3 million in the corresponding period of last year. The growth was mainly attributable to the increase demand from the hospitals and increase in number of private Chinese medicine practitioners in the Group's customer base.

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

During the six months ended 30 June 2017, the sales of CCMG products and provision of Chinese medical diagnostic services by the Group's Nong's® (農本方®) Chinese medicine clinics generated revenue of HK$36.3 million in aggregate, representing an increase of HK$14.1 million or 63.8% compared to HK$22.2 million in the corresponding period of last year, which was mainly attributable to the fast expansion of the Nong's® (農本方®) Chinese medicine clinics network, from 37 clinics as at 30 June 2016 to 59 clinics as at 30 June 2017. The Group continues to be the largest TCM clinic chain in Hong Kong.

According to the Law of the People's Republic of China on Traditional Chinese Medicine <中華人民共和國中醫藥法>, which is effective in 1 July 2017, enterprises are encouraged to setup their private clinics. The Group believes the new policy will facilitate its clinics expansion plan in China.

In July 2017, the Group's first Nong's® (農本方®) Chinese medicine clinic in China commenced business, which was located in Nanning, Guangxi Zhuang Autonomous Region, and is the first Hong Kong-funded medical institution to be granted approval to operate in Guangxi under CEPA. The Group's second China Nong's® (農本方®) Chinese medicine clinic under CEPA was located in Shanghai under setup stage, and is expected to commence business in first quarter of 2018.

During the period under review, the Group has purchased three properties in Nanning, Guangxi Zhuang Autonomous Region, which is intended to be used for the operation of clinic.

As one of the growth engines of the Group's business, it will continue to operate more new Nong's® (農本方®) Chinese medicine clinics in Hong Kong, and replicate the successful clinic model in China and overseas market in the future.

Chinese healthcare products

During the six months ended 30 June 2017, revenue from sales of Chinese healthcare products was HK$34.1 million, representing an increase of HK$11.4 million or 50.4% compared to HK$22.7 million in the corresponding period of last year.

In order to enrich the product portfolio of its Chinese healthcare products and get immediate access to the overseas market, the Group acquired K'an Herbs Inc., a U.S. based Chinese herbal products company during the period under review. The acquisition was completed on 7 March 2017, and HK$9.8 million revenue was contributed by this newly acquired subsidiary during the period under review since the completion date.

Apart from the newly acquired Chinese herbal products business in U.S., the Group existing Chinese healthcare products recorded a revenue growth of HK$1.6 million or 7.0% during the period under review compared to HK$22.7 million in the corresponding period of last year. The revenue growth of the Group's existing Chinese healthcare products was mainly attributed by the outstanding growth of the Nong's series over-the-counter products, as a result of the continued marketing effort to increase the brand awareness of the Group's Chinese healthcare products.

Plantation

During the period under review, the Group has completed the acquisition of Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co. (together "**Plantation Subsidiaries**"), which are engaged in plantation and trading of raw Chinese herbs and manufacturing and sale of TCM decoction pieces on 19 April 2017. The acquisition will allow the Group to vertically integrate the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of ensuring a stable supply of high-quality raw Chinese herbs at a lower cost. One of the current expansion plans and business strategies of the Group is to expand into the TCM decoction pieces business which is highly complementary to its existing CCMG business. The acquisition will allow the Group to immediately enter into the TCM decoction pieces industry and the expanded comprehensive product mix of the Group's CCMG, over-the counter Chinese healthcare products and TCM decoction pieces will highly improve the competitiveness of the Group in the market.

During the period under review, the plantation business of the Plantation Subsidiaries contributed HK$10.3 million to the Group's revenue since the acquisition. As the TCM decoction pieces production facilities are still under construction, the revenue from the Plantation Subsidiaries was mainly attributed to the trading of raw Chinese herbs and plantation products.

Profitability

	Six months ended 30 June		
	2017	2016	**Growth Rate**
	HK$000	*HK$000*	
Revenue	**263,093**	212,249	24.0%
Cost of sales	**82,225**	70,641	16.4%
Gross Profit	**180,868**	141,608	27.7%
Gross profit margin	**68.7%**	66.7%	

The Group's gross profit margin for the six months ended 30 June 2017 was 68.7%, representing an increase of 2% compared to 66.7% in the corresponding period of last year. The average selling price and unit cost remained stable during the year. The increase in the gross profit margin was mainly attributable to the increase in portion of revenue generated from Nong's® (農本方®) Chinese medicine clinics and direct sales customers in China, from which the Group generated a 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, net foreign exchange gain and bank interest income. For the six months ended 30 June 2017, the Group's other income and gain was HK$7.5 million, representing an increase of HK$0.6 million or 8.7% compared to HK$6.9 million for the corresponding period of last year. The increase was mainly due to the net foreign exchange gain resulting from the appreciation of the Group's financial instruments denominated in foreign currencies, which was partially offset by the decrease in government grant obtained and recognized.

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 2017, the Group's selling and distribution expenses was HK$80.6 million, representing an increase of HK$15.1 million or 23.1% compared to HK$65.5 million for the corresponding period of last year. The increase was mainly attributable to (i) increased advertising and promotional activities to strengthen the presence of the Group's products and brands, and (ii) continued devoting the marketing resources to focus on the direct sales customers in the China. For the six months ended 30 June 2017, selling and distribution expenses as a percentage to revenue remained stable at 30.6%, as compared to 30.9% for the corresponding period of last year.

Administrative expenses

The Group's 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 six months ended 30 June 2017, the Group's administrative expenses was HK$85.8 million, representing an increase of HK$19.5 million or 29.4% compared to HK$66.3 million for the corresponding period of last year. The increase was mainly attributable to (i) increase in clinic management fee, rental expenses and relevant clinic operating expenses in relation to the Group's Nong's® (農本方®) Chinese medicine clinics as the Group operated 59 clinics as at 30 June 2017, as compared to 37 as at 30 June 2016, (ii) increase in administrative expenses for developing the new overseas business segment in Canada, Australia and Japan, and (iii) administrative expenses attributed by the newly acquired subsidiaries in U.S. and Guizhou, and HK$3.5 million legal and professional fee for such acquisitions were fully recorded as expenses for the period under review.

Other expenses

The Group's other expenses mainly comprised of voluntary charity donation, net foreign exchange loss and miscellaneous expenses. The decrease was primarily attributable to a net foreign exchange gain was recorded during current period under review, but a net foreign exchange loss was recorded for the corresponding period of last year.

Finance costs

For the six months ended 30 June 2017, the Group's finance costs amounted to HK$7.0 million, representing an increase of HK$2.4 million or 53.2% as compared to HK$4.6 million for the correspondence period of last year. The increase was mainly due to the increase in bank borrowings during the six months ended 30 June 2017 as compared to the corresponding period of last year. The addition of bank borrowings were mainly used to finance the acquisitions, capital expenditures and general working capitals for the period under review.

Income tax expense

For the six months ended 30 June 2017, the Group's income tax expenses amounted to HK$4.6 million, representing an increase of HK$2.5 million or 121.3% as compared to HK$2.1 million for the correspondence period of last year, as a result of a better profitability of the Group for the period under review. The effective tax rate increased from 20.2% for the six months period ended 30 June 2016 to 33.7% for the period under view. The increase in effective tax rate was mainly due to the unrecognised tax loss arose from the new overseas business segment and non-tax deductible legal and professional fee incurred for acquisitions.

CAPITAL EXPENDITURES

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. During the six months ended 30 June 2017, the total capital expenditure was HK$40.5 million (six months ended 30 June 2016: HK$35.1 million). The capital expenditures during the period under review were mainly incurred for (i) acquisition of production equipment and enhancement of existing production line, (ii) renovation of new Nong's® (農本方®) Chinese medicine clinics, and (iii) payment for three properties in Nanning, Guangxi Zhuang Autonomous Region, which is intended to be used for the operation of clinics.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had net current assets of HK$167.6 million (31 December 2016: HK$255.8 million), which included cash and cash equivalent of HK$156.7 million (31 December 2016: HK$209.1 million) and the current portion of interest-bearing bank and other borrowings amounting to HK$417.7 million (31 December 2016: HK$261.0 million). As at 30 June 2017, the Group's interest bearing bank and other borrowing and unused bank facilities amounted to HK$537.5 million (31 December 2016: HK$261.0 million) and HK$163.5 million (31 December 2016: HK$197.5 million), respectively.

GEARING RATIO

As at 30 June 2017, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank and other borrowings by total equity, increased to 0.99 from 0.57 as at 31 December 2016. The increase was primarily due to additional loans taken by the Group 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.

HUMAN RESOURCES

As at 30 June 2017, the Group had a total of 679 employees (31 December 2016: 544 employees). During the six months ended 30 June 2017, total staff costs excluding Directors' remuneration was HK$53.7 million (six months ended 30 June 2016: HK$53.4 million). The Group offers a competitive remuneration package 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 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.

CAPITAL COMMITMENT

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Acquisition of subsidiaries*	**—**	217,512
Lands and buildings	**84,311**	48,582
Plant and machinery	**5,547**	8,866
Intangible assets	**1,419**	–
	91,277	274,960

* As at 31 December 2016, the Group had contracted for capital commitments in respect of the acquisition of the Plantation Subsidiaries amounting to RMB190,000,000 (equivalent to approximately HK$217,512,000). Such acquisition was completed on 19 April 2017.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2017.

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. As at 30 June 2017, the Group had utilised approximately HK$191.5 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	**Approximate amount of net proceeds** *(in HK$ million)*	**Approximate percentage of net proceeds** *(in HK$ million)*	**Approximate amount utilized** *(in HK$ million)*
To expand manufacturing facilities and enhance existing production lines	86.5	30.0%	38.0
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25.0%	54.2
To expand distribution network into new target cities in the PRC	57.7	20.0%	57.7
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15.0%	12.8
Additional working capital of the Group	28.8	10.0%	28.8
	288.4	100.0%	191.5

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 2017, save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

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

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 our 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 2017 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 2017 has also been reviewed and passed by the Audit Committee.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. All Directors confirmed that, having made specific enquiries of all Directors, they have complied with the required standard of dealing as set out in the Model Code throughout the six months ended 30 June 2017.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities throughout the six months ended 30 June 2017.

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

On 14 August 2017, the Group entered into share purchase agreements with all the shareholders of SODX Co., Ltd. ("**SODX**") in relation to the Company's acquisition of entire issued and outstanding shares of SODX at a total cash consideration of JPY244.0 million (equivalent to approximately HK$17.1 million). SODX was incorporated in Japan and is principally engaged in manufacturing and sales of health food in Japan. The acquisition of SODX has yet to be completed as at the date of this announcement. Details of the acquisition of SODX have been set out in the Company's announcements dated 14 August 2017.

INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2017.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2017 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, 25 August 2017

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. Chan Lung Sang 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. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee.