PURAPHARM CORPORATION LIMITED
培力控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1498)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	Year ended 31 December					
	2019		2018		**Change**	
	HK$000	***% of total***	*HK$000*	*% of total*	*HK$000*	*%*
Revenue						
— China CCMG	**285,220**	**41.0%**	324,611	43.5%	(39,391)	-12.1
— Hong Kong CCMG	**161,573**	**23.2%**	171,772	23.0%	(10,199)	-5.9
— Chinese healthcare products	**90,429**	**13.0%**	99,024	13.3%	(8,595)	-8.7
— Nong‘s ® (農本方®) Chinese medicine clinics	**96,413**	**13.9%**	95,870	12.9%	543	0.6
— Plantation	**62,244**	**8.9%**	54,226	7.3%	8,018	14.8
	695,879	**100.0%**	745,503	100.0%	(49,624)	-6.7
Gross profit	**398,839**		454,900		(56,061)	-12.3
Net (loss) profit for the year	**(227,258)**		20,806			

The board (the "**Board**") of directors (the "**Directors**") of PuraPharm Corporation Limited (the "**Company**") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019 (the "**Reporting Period**") together with the comparative audited figures for the year ended 31 December 2018 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**695,879**	745,503
Cost of sales		**(297,040)**	(290,603)
Gross profit		**398,839**	454,900
Other income and gains	5	**17,467**	49,615
Selling and distribution expenses		**(226,212)**	(229,995)
Administrative expenses		**(228,482)**	(217,026)
Impairment loss on property, plant and equipment		**(19,063)**	—
Impairment loss on right-of-use assets		**(22,380)**	—
Impairment loss on goodwill		**(67,346)**	—
Impairment losses on financial assets, net		**(5,391)**	—
Other expenses		**(36,379)**	(9,084)
Finance costs		**(27,203)**	(21,879)
PROFIT/(LOSS) BEFORE TAX	6	**(216,150)**	26,531
Income tax expense	7	**(11,108)**	(5,725)
PROFIT/(LOSS) FOR THE YEAR		**(227,258)**	20,806
Attributable to:			
Owners of the parent		**(227,258)**	20,806
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic (Restated for 2018) — For (loss)/profit for the year (expressed in HK cents per share)		**(87.16)**	8.16
Diluted (Restated for 2018) — For (loss)/profit for the year (expressed in HK cents per share)		**(87.16)**	8.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**(227,258)**	20,806
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	**(6,758)**	(9,783)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(6,758)**	(9,783)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(234,016)**	11,023
Attributable to:		
Owners of the parent	**(234,016)**	11,023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**239,356**	294,676
Investment properties		**7,557**	—
Prepaid land lease payments		**—**	45,622
Right-of-use assets		**121,117**	—
Goodwill	*12*	**88,339**	155,685
Other intangible assets		**34,275**	36,190
Financial assets at fair value through profit or loss		**18,195**	10,741
Biological assets		**52,436**	28,386
Prepayments for non-current assets		**50,902**	13,196
Deferred tax assets		**12,363**	16,383
Total non-current assets		**624,540**	600,879
CURRENT ASSETS			
Inventories		**200,888**	214,033
Biological assets		**10,077**	45,461
Trade and bills receivables	*9*	**230,734**	290,657
Prepayments, other receivables and other assets		**62,879**	66,402
Tax recoverable		**—**	1,787
Pledged deposits		**25,115**	9,000
Cash and cash equivalents		**68,009**	104,884
Total current assets		**597,702**	732,224
CURRENT LIABILITIES			
Trade and bills payables	*10*	**178,985**	139,201
Other payables and accruals		**97,285**	71,426
Interest-bearing bank and other borrowings	*13*	**312,282**	354,028
Lease liabilities		**28,030**	—
Loans from a director		**15,000**	30,000
Tax payable		**5,850**	3,712
Government grants		**1,648**	2,358
Total current liabilities		**639,080**	600,725
NET CURRENT ASSETS/(LIABILITIES)		**(41,378)**	131,499
TOTAL ASSETS LESS CURRENT LIABILITIES		**583,162**	732,378

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals		**30,173**	—
Interest-bearing bank and other borrowings	*13*	**143,715**	164,449
Lease liabilities		**42,506**	—
Government grants		**2,038**	3,194
Deferred tax liabilities		**2,607**	2,516
Total non-current liabilities		**221,039**	170,159
Net assets		**362,123**	562,219
EQUITY			
Equity attributable to owners of the parent			
Share capital		**204,028**	191,981
Shares held for share award scheme		**(7,200)**	(8,200)
Reserves		**165,295**	378,438
Total equity		**362,123**	562,219

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**(216,150)**	26,531
Adjustments for:		
Finance costs	**27,203**	21,879
Bank interest income	**(592)**	(431)
Foreign exchange loss, net	**2,405**	5,502
Loss on disposal of property, plant and equipment	**3,149**	2,574
Equity-settled share award and share option expenses	**4,223**	2,114
Depreciation of property, plant and equipment	**29,370**	33,379
Depreciation of right-of-use assets	**33,620**	—
Recognition of prepaid land lease payments	**—**	1,396
Amortisation of intangible assets	**3,765**	3,917
Fair value loss on investment properties	**1,452**	—
Fair value loss on financial assets at fair value through profit or loss	**1,546**	—
Fair value loss/(gain) on biological assets	**19,642**	(26,553)
Impairment loss on property, plant and equipment	**19,063**	—
Impairment loss on right-of-use assets	**22,380**	—
Impairment loss on goodwill	**67,346**	—
Impairment loss on intangible assets	**54**	—
Write-down of inventories to net realisable value	**6,286**	4,399
Impairment loss on trade and bills receivables	**5,391**	772
	30,153	75,479

	2019	2018
	HK$'000	*HK$'000*
Decrease in inventories	**33,396**	75,495
Increase in biological assets	**(41,439)**	(26,705)
(Increase)/decrease in trade and bills receivables	**47,875**	(56,344)
Increase in prepayments, deposits and other receivables	**804**	(15,006)
Increase in trade and bills payables	**44,412**	30,886
Decrease in government grants	**(1,724)**	(1,106)
Increase/(decrease) in other payables and accruals	**20,396**	(1,296)
Cash generated from operations	**133,873**	81,403
Interest received	**592**	431
Hong Kong profits tax paid	**(514)**	(4,572)
Overseas profits tax paid	**(2,190)**	(1,414)
PRC profit taxes paid	**(561)**	(3,387)
Net cash flows generated from operating activities	**131,200**	72,461
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(66,427)**	(45,192)
Receipt of retention money from a construction project	**30,613**	—
Acquisition of right-of-use assets	**(28,518)**	—
Proceeds from disposal of property, plant and equipment	**—**	91
Additions to intangible assets	**(2,014)**	(2,672)
(Purchase)/disposal of financial assets at fair value through profit or loss	**(9,000)**	11,685
Increase in pledged time deposits, net	**(16,115)**	—
Net cash flows used in investing activities	**(91,461)**	(36,088)

	2019	2018
	HK$'000	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	**333,417**	514,214
Repayment of bank loans and other borrowings	**(367,318)**	(548,904)
Share issue expenses	**(361)**	—
Loans from a director	**15,000**	50,000
Repayment of loans to a director	**—**	(20,000)
Principal portion of lease payments	**(30,719)**	—
Interest paid for lease liabilities	**(5,501)**	—
Interest paid for bank and other borrowing	**(23,764)**	(23,334)
Net cash flows used in financing activities	**(79,246)**	(28,024)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(39,507)**	8,349
Cash and cash equivalents at beginning of year	**90,516**	86,805
Effect of foreign exchange rate changes, net	**(580)**	(4,638)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**50,429**	90,516
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**68,009**	104,884
Bank overdrafts	**(17,580)**	(14,368)
Cash and cash equivalents as stated in the statement of cash flows	**50,429**	90,516

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

2. BASIS OF PREPARATION

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

As at 31 December 2019, the Group had net current liabilities of HK$41.4 million (31 December 2018: net current assets of HK$131.5 million). In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implanting the following measures:

(a) The Group continues to restructure the mix of products with the aim to increase the portion of products with higher margin so as to attain profitable and positive cash flow operations;

(b) The Group is taking measures to tighten cost controls over administrative and other operating expenses aiming at improving the working capital and cash flow position of the Group; and

(c) As at 31 December 2019, the Group had unutilised bank facilities amounting to HK$80.2 million (note 13). Therefore, upon repayment when due or on demand, subject to the condition that the Group will be able to repay the total principal and interest due upon the respective repayment dates. Based on the past experience and maturity of the aforesaid facilities, the directors consider it is highly probable that the Group can withdraw adequate amount of short-term bank loans for another year to maintain sufficient working capital of the Group.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period over twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with the Group's internally generated funds, unutilised bank facilities and net proceeds from rights issue completed on 2 March 2020, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2019 on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

If the Group loses control over a subsidiary, it derecognises (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.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and Annual Improvements to HKFRSs 2015–2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

HKFRS 16

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK$26,024,000, and prepaid land lease payments of HK$45,622,000 and HK$1,556,000 that were reclassified from property, plant and equipment, prepaid land lease payments and prepayments, other receivables and other assets, respectively

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

As a lessee — Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets	122,678
Decrease in property, plant and equipment	(26,024)
Decrease in prepaid land lease payments	(45,622)
Decrease in prepayments, other receivables and other assets	(1,556)
Increase in total assets	49,476
Liabilities	
Increase in lease liabilities	73,598
Decrease in interest-bearing bank and other borrowing	(24,122)
Increase in total liabilities	49,476

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	76,255
Weighted average incremental borrowing rate as at 1 January 2019	4.15%
Discounted operating lease commitments as at 1 January 2019	60,341
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(10,865)
Add: Commitments relating to leases previously classified as finance leases	24,122
Lease liabilities as at 1 January 2019	73,598

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 No mandatory effective date yet determined but available for adoption

The Group expects that the adoption of the above new and revised standards will have no significant impact on these financial statements.

4. OPERATING SEGMENT INFORMATION

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

(a) the China CCMG segment mainly engages in the production and sale of CCMG products in China;

(b) the Hong Kong CCMG segment mainly engages in the sale of CCMG products excluding the sales through self-operated clinics in Hong Kong;

(c) the Chinese healthcare products segment mainly engages in the production and sale of healthcare products in Hong Kong, the USA and Japan;

(d) the clinics segment mainly engages in the provision of Chinese medical diagnostic services and sale of CCMG products through self-operated clinics; and

(e) the plantation segment mainly engages in the plantation and trading of raw Chinese herbs, and manufacture and sale of TCM decoction pieces.

Management monitors the results of the Group's operating segments respectively for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss after tax. The adjusted profit or loss after tax is measured consistently with the Group's profit after tax except interest income, net foreign exchange gain, interest on bank and others borrowings, corporate and other unallocated expenses and income tax expense.

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

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2019 and 2018.

31 December 2019

	China CCMG *HK$'000*	Hong Kong CCMG *HK$'000*	Chinese healthcare products *HK$'000*	Clinics *HK$'000*	Plantation *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue *(note 5)*:							
Revenue to external customers	285,220	161,573	90,429	96,413	62,244	—	695,879
Intersegment sales	100,421	15,924	971	—	46,113	(163,429)	—
	385,641	177,497	91,400	96,413	108,357	(163,429)	695,879
Segment results	(10,606)	32,561	14,769	(65,437)	(104,272)	—	(132,985)
Reconciliations:							
Interest income							592
Foreign exchange loss, net							(2,405)
Equity-settled share award and share option expenses							(4,223)
Finance costs (other than interest on lease liabilities)							(21,702)
Corporate and other unallocated expenses							(55,427)
Loss before tax							(216,150)
Income tax expense							(11,108)
Net loss							(227,258)
Other segment information:							
Depreciation and amortisation of property plant and equipment and other intangible asset	9,315	2,642	3,361	13,184	4,633	—	33,135
Depreciation of right-of-use asset	8,890	1,155	1,922	19,679	1,974	—	33,620
Loss on disposal of property, plant and equipment	—	—	—	3,149	—	—	3,149
Write-down of inventories to net realisable value	5,681	605	—	—	—	—	6,286
Impairment loss on PPE, other intangible asset and right-of-use asset	1,882	—	—	39,615	—	—	41,497
Impairment loss on goodwill	—	—	—	—	67,346	—	67,346
Capital expenditure*	6,582	1,246	1,866	7,163	42,395	—	59,252
Impairment loss on trade and bills receivables	4,220	403	98	—	670	—	5,391

31 December 2018

	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	324,611	171,772	99,024	95,870	54,226	—	745,503
Intersegment sales	88,406	16,579	1,161	—	7,497	(113,643)	—
	413,017	188,351	100,185	95,870	61,723	(113,643)	745,503
Segment results	42,037	39,461	19,280	(22,588)	27,880	—	106,070
Reconciliations:							
Interest income							431
Foreign exchange loss, net							(5,502)
Equity-settled share award expenses							(2,114)
Finance costs							(21,879)
Corporate and other unallocated expenses							(50,475)
Profit before tax							26,531
Income tax expense							(5,725)
Net profit							20,806
Other segment information:							
Depreciation and amortisation	14,349	3,328	4,041	11,004	5,970	—	38,692
Loss on disposal of items of property, plant and equipment	233	91	—	2,250	—	—	2,574
Write-down of inventories to net realisable value	2,224	1,175	1,000	—	—	—	4,399
Capital expenditure*	9,918	890	5,731	14,335	14,723	—	45,597
Impairment loss on trade and bills receivables	772	—	—	—	—	—	772

* Capital expenditure consists of additions of property, plant and equipment, investment properties, right-of-use assets and other intangible assets including assets from the acquisition of subsidiary.

Geographical information

(a) Revenue from external customers

	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**297,137**	312,757
Mainland China	**350,740**	382,786
Other countries/regions	**48,002**	49,960
	695,879	745,503

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**136,641**	202,744
Mainland China	**436,520**	350,851
Other countries/regions	**20,821**	20,160
	593,982	573,755

The non-current asset information above is based on the locations of the assets and excludes financial assets at fair value through profit or loss and deferred tax assets.

Information about a major customer

For the years ended 31 December 2019 and 2018, there was no single customer from which more than 10% of the Group's total revenue was derived.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sale of CCMG products	**517,453**	566,758
Sale of Chinese healthcare products	**90,429**	99,024
Sale of raw Chinese herbs	**62,244**	54,226
Rendering of Diagnostic Services	**25,753**	25,495
	695,879	745,503

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

For the year ended 31 December 2019

Segments	**Sale of goods** *HK$'000*	**Diagnostic services** *HK$'000*	**Total** *HK$'000*
Type of goods or services			
Sale of goods	**670,126**	**—**	**670,126**
Rendering of services	**—**	**25,753**	**25,753**
Total revenue from contracts with customers	**670,126**	**25,753**	**695,879**
Geographical markets			
Hong Kong	**272,118**	**25,019**	**297,137**
Mainland China	**350,081**	**659**	**350,740**
Other countries/regions	**47,927**	**75**	**48,002**
Total revenue from contracts with customers	**670,126**	**25,753**	**695,879**
Timing of revenue recognition			
Goods transferred at a point in time	**670,126**	**—**	**670,126**
Services transferred over time	**—**	**25,753**	**25,753**
Total revenue from contracts with customers	**670,126**	**25,753**	**695,879**

For the year ended 31 December 2018

Segments	Sale of goods *HK$'000*	Diagnostic services *HK$'000*	Total *HK$'000*
Type of goods or services			
Sale of goods	720,008	—	720,008
Rendering of services	—	25,495	25,495
Total revenue from contracts with customers	720,008	25,495	745,503
Geographical markets			
Hong Kong	287,950	24,807	312,757
Mainland China	382,181	605	382,786
Other countries/regions	49,877	83	49,960
Total revenue from contracts with customers	720,008	25,495	745,503
Timing of revenue recognition			
Goods transferred at a point in time	720,008	—	720,008
Services transferred over time	—	25,495	25,495
Total revenue from contracts with customers	720,008	25,495	745,503

Set out below is the reconciliation of the revenue from contracts to customers to the amounts disclosed in the segment information:

For the year ended 31 December 2019

Segments	**Sale of goods** *HK$'000*	**Diagnostic services** *HK$'000*	**Total** *HK$'000*
Revenue from contracts with customers			
External customers	**670,126**	**25,753**	**695,879**
Intersegment sales	**163,429**	**—**	**163,429**
	833,555	**25,753**	**859,308**
Intersegment adjustments and eliminations	**(163,429)**	**—**	**(163,429)**
Total revenue from contracts with customers	**670,126**	**25,753**	**695,879**

For the year ended 31 December 2018

Segments	Sale of goods *HK$'000*	Diagnostic services *HK$'000*	Total *HK$'000*
Revenue from contracts with customers			
External customers	720,008	25,495	745,503
Intersegment sales	113,643	—	113,643
	833,651	25,495	859,146
Intersegment adjustments and eliminations	(113,643)	—	(113,643)
Total revenue from contracts with customers	720,008	25,495	745,503

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 *HK$'000*	2018 *HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**7,498**	4,720
Rendering of services	**369**	306
	7,867	5,026

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon receipts of goods and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Rendering of services

The performance obligation is satisfied over time as services are rendered.

	2019	2018
	HK$'000	*HK$'000*
Other income and gains		
Fair value gain on biological assets, net	**—**	26,553
Government grants*	**12,053**	16,746
Gain from the sale of equipment and accessories	**2,447**	2,374
Bank interest income	**592**	431
Gross rental income from investment property operating leases:		
Variable lease payments that do not depend on an index or a rate	**272**	—
Others	**2,103**	3,511
	17,467	49,615

* The amount represented government grants from the relevant authorities in the PRC, which consisted primarily of subsidies and compensation for finance costs, rewarding the Group's industrial investment in poverty area, research and development costs and grants for improvement of the Group's research facilities in relation to certain research and development projects.

6. PROFIT/(LOSS) BEFORE TAX

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

	Note	**2019** **HK$'000**	2018 *HK$'000*
Cost of inventories sold		**283,786**	277,024
Cost of services provided		**13,254**	13,579
Depreciation of property, plant and equipment		**29,370**	33,379
Depreciation of right-of-use assets		**33,620**	—
Recognition of prepaid land lease payments		**—**	1,396
Amortisation of Intangible assets		**3,765**	3,917
Fair value loss on investment properties*		**1,452**	—
Fair value loss on financial assets at fair value through profit or loss*		**1,546**	—
Fair value loss/(gain) on biological assets, net*		**19,642**	(26,553)
Impairment loss on property, plant and equipment		**19,063**	—
Impairment loss on right-of-used asset		**22,380**	—
Impairment loss on goodwill	*12*	**67,346**	—
Impairment loss on other intangible assets		**54**	—
Write-down of inventories to net realisable value**		**6,286**	4,399
Impairment loss on trade and bills receivables		**5,391**	772
Minimum lease payments under operating leases		**—**	42,421
Lease payments not included in the measurement of lease liabilities		**14,085**	—
Auditors' remuneration		**3,110**	3,312
Employee benefit expense (excluding directors' remuneration):			
Wages and salaries		**69,678**	87,252
Pension scheme contributions		**9,481**	14,919
Equity-settled share award and share option expenses		**455**	996
Severance payments		**1,492**	5,773
		81,106	108,940
Research and development costs***		**34,733**	26,367
Loss on disposal of property, plant and equipment*		**3,149**	2,574
Foreign exchange loss, net*		**2,405**	5,502

* The fair value loss on investment properties, financial assets at fair value through profit or loss, and biological assets, loss on disposal of property, plant and equipment and foreign exchange loss, net was included in "Other expenses" in the consolidated statement of profit or loss for the year ended 31 December 2019. Fair value gain on biological assets was included in "Other income and gains" in 2018.

** The write-down of inventories to net realisable value was included in the "Cost of sales" in the consolidated statement of profit or loss for the years ended 31 December 2019 and 2018.

*** HK$1,249,000 (2018: HK$648,000) disclosed in the item of "Depreciation" and HK$7,845,000 (2018: HK$8,416,000) disclosed in the item of "Employee benefit expense" were also included in the item of "Research and development costs".

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. U.S. and Japan profits taxes have been provided at the rates of 24% (2018: 24%) and 23.2% (2018: 23.2%) on the estimated assessable profits arising in U.S. and Japan during the years ended 31 December 2019 and 2018. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, Purapharm (Nanning) Pharmaceuticals Co., Limited ("**PuraPharm Nanning**"), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15%.

According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) DZ Plantation Co., Ltd., Guizhou Jinping Gold Sparkle Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. have obtained the documentation acknowledged by the tax authority in charge for the CIT exemption for year 2019 and the preferential income tax rate was 0%.

	2019	2018
	HK$'000	*HK$'000*
Current	**7,182**	6,203
Deferred	**3,926**	(478)
Total tax charge for the year	**11,108**	5,725

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	2019	2018 (restated)
Earnings/(loss) per share attributable to ordinary equity holders of the parent		
— Basic (HK cents)	**(87.16)**	8.16
— Diluted (HK cents)	**(87.16)**	8.11

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year ended 31 December 2019 excluding ordinary shares purchased by the Group and held for share award scheme.

	2019	2018 (restated)
Profit/(loss) attributable to ordinary equity holders of the parent (HK$'000)	**(227,258)**	20,806
Weighted average number of ordinary shares in issue	**260,743,005**	255,009,658
Basic earnings/(loss) per share (expressed in HK cents per share)	**(87.16)**	8.16

The calculation of the weighted average number of ordinary shares amounting to 260,743,005 (2018: 255,009,658) in issue for the year ended 31 December 2019 is as follows:

	2019	2018 (restated)
Number of issued shares on 1 January	**247,717,920**	247,717,920
Adjustment for shares ("**Award Shares**") held for share award scheme	**(2,338,685)**	(2,736,205)
Effect of capitalisation issue on 2 September 2019	**5,110,370**	—
Effect of rights issue on 2 March 2020	**10,253,400**	10,027,943
Weighted average number of ordinary shares	**260,743,005**	255,009,658

(b) Diluted

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

	2019	2018 (restated)
Profit/(loss) attributable to the ordinary equity holders of the parent (HK$'000)	**(227,258)**	20,806
Weighted average number of ordinary shares in issue during the year	**260,743,005**	255,009,658
Adjustment for Award Shares	**—***	1,527,260
Effect of rights issue on 2 March 2020	**—**	62,516
Weighted average number of ordinary shares for diluted earnings per share calculation	**260,743,005**	256,599,434
Diluted earnings/(loss) per share (expressed in HK cents per share)	**(87.16)**	8.11

* Because the diluted loss per share amount is increased when taking Award Shares into account, the Award Shares had an anti-dilutive effect on the basic loss per share the year ended 31 December 2019 and were ignored in the calculation of diluted loss per share during the year ended 31 December 2019.

The Group also had no potentially dilutive ordinary shares in issue for share options during the year ended 31 December 2019 as its excise price is higher than the market price of the Group's shares as at the end of the reporting period.

9. TRADE AND BILLS RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**230,766**	285,379
Bills receivable	**17,234**	17,514
	248,000	302,893
Less: Impairment of trade and bills receivables	**(17,266)**	(12,236)
	230,734	290,657

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

An ageing analysis of the trade and bills receivables as at 31 December 2019 and 2018, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**89,850**	103,620
1 to 3 months	**48,215**	58,895
3 to 6 months	**37,272**	44,861
6 months to 1 year	**31,764**	53,851
Over 1 year	**23,633**	29,430
	230,734	290,657

10. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at 31 December 2019 and 2018, based on the invoice date, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**61,380**	41,106
1 to 2 months	**26,004**	5,939
2 to 3 months	**10,971**	14,007
Over 3 months	**80,630**	78,149
	178,985	139,201

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

11. DIVIDENDS

No dividend was proposed for the years ended 31 December 2019 and 2018.

12. GOODWILL

	Note	**2019** HK$'000	2018 HK$'000
At 1 January		**155,685**	155,685
Impairment recognised during the year	6	**(67,346)**	—
At 31 December		**88,339**	155,685

Impairment testing of goodwill

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

- Plantation CGU;
- Chinese herbal products CGU; and
- SODX Co., Ltd. CGU ("**SODX CGU**").

The carrying amount of goodwill allocated to each of the CGU is as follows:

	31 December 2019 HK$'000	31 December 2018 HK$'000
Plantation CGU	**67,346**	134,692
Chinese herbal products CGU	**13,705**	13,705
SODX CGU	**7,288**	7,288
	88,339	155,685

The recoverable amount of each CGU has been determined based on a value in use (the "**VIU**") calculation using cash flow projections based on financial budgets or forecasts approved by management covering a period of 5 to 8 years (the "**Budget Period**"). 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 key assumptions used for VIU calculation of each CGU are set out as follows:

	31 December 2019		
	Plantation CGU	**Chinese herbal products CGU**	**SODX CGU**
Compound annual growth rate within the Budget Period	**10.7%**	**4%**	**3%**
Growth rate to extrapolate cash flows beyond the Budget Period	**3%**	**2.0%**	**0.8%**
Budget gross profit margin	**10.0%~68.2%**	**55.9%**	**45.2%**
Pre-tax discount rate	**15.0%**	**18.4%**	**11.7%**

	31 December 2018		
	Plantation CGU	Chinese herbal products CGU	SODX CGU
Compound annual growth rate within the Budget Period	21.5%	4%	3%
Growth rate to extrapolate cash flows beyond the Budget Period	2.7%	2.0%	1.1%
Budget gross profit margin	15.0%~71.8%	57.7%	45.4%
Pre-tax discount rate	15.0%	21.1%	12.0%

Assumptions were used in the value in use calculation of each CGU as at 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

Compound annual growth rate within the Budget Period — The compound annual growth rate within the Budget Period are estimated based on the historical sales data and market outlook perceived by management.

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

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

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

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

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

Impairment of goodwill in Plantation CGU

There were no significant changes in the growth rate to extrapolate cash flows beyond the Budget Period and pre-tax discount rate in the preparation of the cash flow projections of Plantation CGU as at 31 December 2019 as compared with those adopted as at 31 December 2018, except for below changes in estimations during the year 2019 considering the current market condition and the Group's most recent business plans:

1) the estimations regarding the compound annual growth rate within the Budget Period was decreased since the management of the Group expected that the revenue growth for TCM decoction piece and Chinese raw herb products would slow down by taking into account recent keen market competitions along with the ongoing de-concentration in this industry and declining trend in the market prices of Chinese raw herbs products; and

2) the estimations regarding the budget gross profit margin was decreased as the Group would incur additional cost in the Budget Period to enrich its product portfolio (including seedling products) and implement more flexible pricing policies so as to stay competitive.

Therefore, the management of the Group made provision for impairment of goodwill of HK$67,346,000 as at 31 December 2019 according to the revised the projected cash flows in the Plantation CGU.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	*Maturity*	*HK$'000*	*Effective interest rate (%)*	*Maturity*	*HK$'000*
Current						
Finance lease payable	**—**	**—**	**—**	10.75	2019	7,796
Bank overdraft — secured (a)	**3.75–4.25**	**On demand**	**9,592**	4.00–4.13	On demand	6,478
Bank overdraft — unsecured (a)	**4.75–5.25**	**On demand**	**7,988**	5.00, 5.13	On demand	7,890
Bank loans — secured	**1.75–6.28**	**On demand**	**94,890**	0.85–5.70	2019	138,479
Bank loans and other borrowings — secured (a)	**0.85–6.17**	**2020**	**90,984**	2.00–4.57	On demand	72,574
Bank loans — unsecured (a)	**3.10–5.50**	**On demand**	**55,088**	2.60–6.83	On demand	119,083
Bank loans — unsecured	**4.35–9.00**	**2020**	**53,740**	4.66	2019	1,728
			312,282			354,028
Non-current						
Finance lease payable	**—**	**—**	**—**	10.75	2021	16,326
Bank loans and other borrowings — secured	**0.85–8.00**	**2021–2029**	**58,369**	0.85–8.00	2020–2028	107,115
Bank loans — unsecured	**4.50–6.18**	**2021–2027**	**85,346**	4.66–6.18	2021, 2022	41,008
			143,715			164,449
			455,997			518,477

	2019	2018
	HK$'000	*HK$'000*
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	**312,282**	354,028
In the second year	**60,659**	55,044
In the third to fifth years, inclusive	**37,870**	107,696
Beyond five years	**45,186**	1,709
	455,997	518,477

Interest-bearing bank and other borrowings are denominated in:

	2019	2018
	HK$'000	*HK$'000*
HK$	**163,861**	253,128
RMB	**281,732**	254,593
JPY	**3,272**	3,624
US$	**7,132**	7,132
	455,997	518,477

(a) HK Interpretation 5 "Presentation of Financial Statements — classification by the borrower of a term loan that contains a repayment on demand clause" requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time ("**repayment on demand clause**") shall be classified in total by the borrower as current in the consolidated statement of financial position. Interest-bearing bank loans of the Group in the amount of HK$167,558,000 (2018: HK$206,025,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$27,150,000 (2018: HK$53,154,000) that is repayable after one year from the end of 2019 has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.

(b) As at 31 December 2019, the Group's bank loans amounting to approximately HK$150,208,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since 1) bank loans amounting to HK$27,150,000 included the repayment on demand clause and have already been classified as current liabilities as mentioned in note 13(a); and 2) bank loans amounting HK$123,058,000 would become maturity within 12 months and have already been classified as current liabilities.

As at 31 December 2018, the Group's bank loans amounting to approximately HK$54,715,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since they all included the repayment on demand clause and have already been classified as current liabilities as mentioned in note 13(a). The Group had obtained waivers for the non-compliance loans of HK$36,478,000 and no demand for immediate repayment was made in respect of the relevant cash loans on 11 March 2019.

(c) As at 31 December 2019, the Group's facilities of bank and other borrowings amounted to HK$536,168,000 (2018: HK$534,084,000), of which HK$455,997,000 (2018: HK$494,355,000) had been utilised.

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

	Carrying value	
	2019	2018
	HK$'000	*HK$'000*
Property, plant and equipment	**182,374**	169,617
Right-of-use assets/prepaid land lease payment	**80,099**	24,916
Financial assets at fair value through profit or loss	**18,195**	10,741
Inventories	**39,113**	40,317
Trade and bills receivables	**62,727**	92,693
Pledged bank deposits	**25,115**	9,000
	407,623	347,284

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The outbreak of Novel Coronavirus (COVID-19) Pneumonia (the "**Pandemic**") has grown into a large-scale, multi-country pandemic during the first quarter of 2020, producing a challenging situation for all industries and society generally. In February 2020, PuraPharm (Nanning) Pharmaceuticals Co. Limited, a wholly owned subsidiary of the Group was authorised by Guangxi Zhuang Autonomous Region Food and Drug Administration ("**GXFDA**") of the People's Republic of China (the "**PRC**") through the contingency application procedure prepare and manufacture the Qing Fei Pai Du Tang (清肺排毒湯), Kang Fu Yi Hao Fang (康復1號方) and Qi Wei Tang (七味湯) granule for Ruikang Hospital Affiliated to Guangxi University of Chinese Medicine. In response to the Pandemic, the Group will closely monitor the situation and actively seek opportunities to cope with the challenges.

In Hong Kong, the local economy continues to be affected by potential continuation of social and political unrest since the second half of 2019. The outbreak of the Pandemic is expected to worsen the economic outlook. The Pandemic is negatively impacting consumer sentiment and affecting the demand for Chinese medicine services by the patients, the Group expects the impact of the Pandemic to the Group's clinic and CCMG business in Hong Kong will continue for a prolonged period in 2020. The Group will continue to monitor the performance of the individual clinic and downsize the clinic network by closing those loss-making clinics. In addition, the Group will continue to review the market condition and proactively negotiate with the landlords on rental reduction in order to achieve clinic profitability as early as possible.

Due to the difficult retail market and sluggish consumption sentiment, the retail sales of the Group's Chinese healthcare products was affected in 2019. The Group believes people are becoming increasingly health-conscious and quest for quality health products as well as improved quality of life. The Group is proactively developing new healthcare products to enrich the product portfolio, and will devote more focus to sell the Group's healthcare products through online platform locally and cross-border, in order to minimise the weaken retail market.

For 2020, the Group anticipates that volatility and uncertainty will continue to undermine global economic growth. The Group will endeavour to achieve sustainability and stability of its business so as to secure the best interest of its Shareholders, and continue to be the pioneer in modernising Chinese Medicine through its innovation and conviction.

FINANCIAL REVIEW

Financial highlights

	Year ended 31 December					
	2019		2018		**Change**	
	HK$000	***% of total***	*HK$000*	*% of total*	*HK$000*	*%*
Revenue						
— China CCMG	**285,220**	**41.0%**	324,611	43.5%	(39,391)	-12.1
— Hong Kong CCMG	**161,573**	**23.2%**	171,772	23.0%	(10,199)	-5.9
— Chinese healthcare products	**90,429**	**13.0%**	99,024	13.3%	(8,595)	-8.7
— Nong's ® (農本方®) Chinese medicine clinics	**96,413**	**13.9%**	95,870	12.9%	543	0.6
— Plantation	**62,244**	**8.9%**	54,226	7.3%	8,018	14.8
	695,879	**100.0%**	745,503	100.0%	(49,624)	-6.7
Gross profit	**398,839**		454,900		(56,061)	-12.3
Net (loss) profit for the year	**(227,258)**		20,806			

In addition to our consolidated financial statements which are presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), the Group also provide further information based on the adjusted net loss for the year as an additional financial measure. This measure does not represent and should not be used as a substitute for, gross profit or loss for the year as determined in accordance with HKFRSs. In addition, the Group's definition of adjusted loss may not be comparable to other similarly titled measures used by other companies.

The Group presented adjusted loss because the Group believes they present a more meaningful picture of its financial performance than unadjusted numbers as they exclude the impact from the significant non-cash or non-recurring items.

The adjusted net loss was arrived at by reconciling the non-cash or non-recurring items from net loss as set out below:

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Net (loss)/profit for the year	**(227,258)**	20,806
Add:		
Impairment loss of goodwill recognised for Plantation CGU	**67,346**	—
Impairment loss of clinics' assets	**39,615**	—
Loss on disposal of clinics	**3,149**	2,250
Fair value loss/(gain) on biological assets, net	**19,642**	(26,553)
Write-off of deferred tax assets	**8,695**	—
Fair value loss on investment properties	**1,452**	—
Fair value loss on financial assets of fair value through profit or loss	**1,546**	—
Adjusted net loss for the year	**(85,813)**	(3,497)

The Group's revenue for the year ended 31 December 2019 was HK$695.9 million, representing a decrease of HK$49.6 million or 6.7% compared to HK$745.5 million in last year. The revenue drop was mainly attributable to:

(i) The structural revamp in pricing and strategy of the China CCMG business carried out in the beginning of 2019 have resulted in losing some of the unprofitable distributors and caused a temporary loss of sales. The performance of the Group's China CCMG business has improved in the second half of 2019, with sales increment by HK$17.3 million or 12.9% comparing to first half of 2019, but the annual sales was lower than last year; and

(ii) Hong Kong experienced prolonged and large scale social unrest in the second half of 2019, which lead to difficult retail market and sluggish consumption sentiment, in turns affecting the Group's CCMG and Chinese healthcare products business in Hong Kong.

In addition to above financial performance of the relevant business segments of the Group, the substantial net loss for the year ended 31 December 2019 was also attributable to following one-off and non-cash items:

(a) Having considered the extremely difficult operating environment in Hong Kong in the second half of 2019 due to the ongoing social unrest, the Group has made a one-off impairment loss of HK$39.6 million in respect of property, plant and equipment and right-of-use assets for those non-performing clinics in Hong Kong and China.

(b) The value-in-use ("**VIU**") method of discounted cash flow projection covering a period of 5 to 8 years (the "**Budget Period**"), was adopted for the calculation of the recoverable amount of the Plantation CGU.

    There were no significant changes in the growth rate to extrapolate cash flows beyond the Budget Period and pre-tax discount rate in the preparation of the cash flow projections of Plantation CGU as at 31 December 2019 as compared with those adopted as at 31 December 2018, except for below changes in estimations during the year 2019 considering the current market condition and the Group's most recent business plans:

    1. the estimations regarding the compound annual growth rate within the Budget Period was decreased since the management of the Group expected that the revenue growth for TCM decoction piece and Chinese raw herb products would slow down by taking into account recent keen market competitions along with the ongoing de-concentration in this industry and declining trend in the market prices of Chinese raw herbs products; and

    2. the estimations regarding the budget gross profit margin was decreased as the Group would incur additional cost in the Budget Period to enrich its product portfolio (including seedling products) and implement more flexible pricing policies so as to stay competitive.

    Therefore, the management of the Group made provision for impairment of goodwill of HK$67,346,000 as at 31 December 2019 according to the revised the projected cash flows in the Plantation CGU.

(c) Due to the deteriorating retail market in Hong Kong, the Group has further made a write-off of deferred tax assets of HK$8.7 million, in which HK$7.8 million was in respect of the tax losses arising from the Group's clinic and Chinese healthcare products business in Hong Kong.

China CCMG

For the year ended 31 December 2019, the sales of CCMG products in China was HK$285.2 million, representing a decrease of HK$39.4 million or 12.1% compared to HK$324.6 million in last year. The decrease was mainly attributed to the decrease in sales quantity.

The China CCMG business continued to be challenging with keen price competition. The drop in sales in the China CCMG business for the year ended 31 December 2019 was due to a structural revamp of the business strategy in China. Since the beginning of 2019, the Group has raised the prices of its CCMG products in China and have successfully negotiated a higher trade margin with certain of its distributors. The adjustments have also delineated some unprofitable distributors and have resulted in a temporary loss of sales. However, this structural revamp in pricing and business strategy is considered a necessary and fundamental move to improve the overall margin of the Group's CCMG business in China in the long term. The revamped sales and pricing strategy of the Group's CCMG business will continue and is on track to further improve the sales and profitability of the China CCMG segment.

HK CCMG

The Group continued to maintain its leading market position in Hong Kong and sell its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the year ended 31 December 2019, the direct sales of CCMG products in Hong Kong was HK$161.6 million, representing a decrease of HK$10.2 million or 5.9% compared to HK$171.8 million in last year. The supply contract with Hong Kong Hospital Authority ("**HKHA**") expired in March 2018. The decline in sales to HKHA was partially offset by the increase in sales to private Chinese medicine practitioners. The Group's sales to private Chinese medicine practitioners accounted for more than 50% of the Group's HK CCMG segment revenue. However, the social unrest in Hong Kong in the second half of 2019 affect the overall business environment for the HK CCMG market, number of patient visit to the clinics or hospitals of the Group's customers decreased. The Group remained as a CCMG supplier to the major non-profit organisations in Hong Kong, and continued to expand its customer base in private Chinese medicine practitioners sector.

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

During the year ended 31 December 2019, the sales of CCMG products and provision of Chinese medical diagnostic services from the Group's Nong's® (農本方®) Chinese medicine clinics generated revenue of HK$96.4 million in aggregate, representing an increase of HK$0.5 million or 0.6% compared to HK$95.9 million in last year.

Due to the ongoing social inability in Hong Kong in second half of 2019, the revenue of the Group's clinic business segment decreased in the second half as compared to the first half of 2019. Having considered the extremely difficult operating environment in Hong Kong, the Group has made a one-off and non-cash impairment loss of HK$39.6 million in respect of the property, plant and equipment and right-of-use assets for those non-performing clinics in Hong Kong and China. The Group will continue to monitor the performance of the individual clinic and downsize the clinic network by closing those loss-making clinics. In addition, the Group will continue to review the market condition and proactively negotiate with the landlords on rental reduction in order to archive clinic profitability as early as possible.

As at 31 December 2019, the Group maintained 57 clinics in operation in Hong Kong, and one clinic in Nanning, Guangxi Zhuang Autonomous Region.

Chinese healthcare products

Sales by regions

	Year ended 31 December					
	2019		2018			
	Revenue	**% of total**	Revenue	% of total	Change	
	HK$000		*HK$000*		*HK$000*	*%*
U.S.	**36,092**	**39.9%**	38,155	38.5%	(2,063)	-5.4
Japan	**10,447**	**11.6%**	9,794	9.9%	653	6.7
Hong Kong	**43,890**	**48.5%**	51,075	51.6%	(7,185)	-14.1
	90,429	**100.0%**	99,024	100.0%	(8,595)	-8.7

During the year ended 31 December 2019, the revenue from sales of Chinese healthcare products was HK$90.4 million, representing a decrease of HK$8.6 million or 8.7% compared to HK$99.0 million in last year. The sales decrease mainly attributable to the decrease in sales in Hong Kong segment of HK$7.2 million or 14.1%. The social unrest in Hong Kong starting from June 2019 affected the retail market in Hong Kong, and our sales of Chinese healthcare products in Hong Kong also being impacted, lead to the overall sales decrease in our Chinese healthcare products.

Plantation

For the year ended 31 December 2019, the upstream plantation segment contributed HK$62.2 million to the Group's overall revenue, higher than the corresponding period in last year of HK$54.2 million by HK$8.0 million or 14.8%. The revenue from the plantation segment was mainly attributed to the plantation and trading of raw Chinese herbs.

The increase in revenue from the plantation segment is due to the increase in quantity sold. However, due to declining trend of market prices of raw Chinese herbs resulted from the keen market competitions, and increased plantation costs, the sales volume and profit margin for the plantation segment is lower than the Group's anticipation.

Profitability

	Year ended 31 December		
	2019	2018	Change
	HK$000	*HK$000*	%
Revenue	**695,879**	745,503	(6.7)
Cost of sales	**297,040**	290,603	2.2
Gross Profit	**398,839**	454,900	(12.3)
Gross profit margin	**57.3%**	61.0%	

The Group's gross profit margin for the year ended 31 December 2019 was 57.3%, representing a decrease of 3.7% compared to 61.0% in last year. The average selling price of CCMG and Chinese healthcare products remained stable during the period. The decrease in gross profit margin was mainly attributable to (i) increase in the cost of sales resulted from the high unit cost inventories balances brought forward from 2018 and (ii) decreased in gross profit margin from the plantation segment.

Other income and gains

The Group's other income and gains were mainly comprised of government grants, gain from sale of equipment and accessories, fair value gain on biological assets and financial assets at fair value through profit or loss, and interest income. For the year ended 31 December 2019, the Group's other income and gain was HK$17.5 million, representing a decrease of HK$32.1 million or 64.7% compared to HK$49.6 million in last year. The decrease was mainly due to (i) the fair value gain on biological assets of HK$26.6 million related to the plantation segment in last year turns into HK$19.6 million fair value loss in the year ended 31 December 2019 and (ii) decrease in gain from government grant recognised during the year.

Selling and distribution expenses

The Group's selling and distribution expenses were mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses, and sales and marketing departmental expenses. For the year ended 31 December 2019, the Group's selling and distribution expenses was HK$226.2 million, representing a decrease of HK$3.8 million or 1.7% compared to HK$230.0 million in last year.

The selling and distribution expenses as a percentage to revenue increased from 30.9% in last year to 32.5% for the year ended 31 December 2019, due to the decrease in revenue but the selling and distribution expenses remained stable. Despite the Group's China CCMG sales declined in the first half of 2019, the Group sales and marketing remained stable as last year. The Group continued to devote more marketing resources in China to increase the brand awareness and competitiveness of its CCMG products in China market.

Administrative expenses

	Year ended 31 December			
	2019	2018	Change	
	HK$000	*HK$000*	*HK$'000*	*%*
Clinics operating expenses	**81,375**	80,836	539	0.7
Research and development costs	**34,733**	26,367	8,366	31.7
General administrative expenses	**112,374**	109,823	2,551	2.3
Total administrative expenses	**228,482**	217,026	11,456	5.3

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

For the year ended 31 December 2019, the Group's administrative expenses was HK$228.5 million, representing an increase of HK$11.5 million or 5.3% compared to HK$217.0 million in last year. The increase was mainly attributable to (i) increase in research and development expenses of HK$8.4 million. Such increase was mainly due to the remaining project costs for system development to improve the operation efficiency; and increase in research and development costs in plantation segment for development and improvement of the plantation technique to increase the product diversity and quality; and (ii) increase in administrative expenses in plantation segment attributed to the increase in staff costs.

Other expenses

The Group's other expenses were mainly comprised of fair value loss on biological assets, investment properties and financial assets at fair value through profit or loss, net foreign exchange loss, loss on disposal of fixed assets and voluntary charity donation. The increase was primarily attributable to (i) net fair value loss on biological assets of HK$19.6 million, such fair value loss was resulted from the anticipation of the decreasing trend of the market price of the biological assets and increased plantation costs. (ii) fair value loss on investment properties located in Nanning, Guangxi Zhuang Autonomous Region; and (iii) fair value loss on financial assets at fair value through profit or loss.

Finance costs

For the year ended 31 December 2019, the Group's finance costs amounted to HK$27.2 million, representing an increase of HK$5.3 million or 24.3% as compared to HK$21.9 million in last year. The increase was mainly due to the increase in interest expenses on lease liabilities of HK$5.5 million resulted from the adoption of HKFRS 16, no such interest expense was recorded in last year.

Income tax expense

For the year ended 31 December 2019, the Group's income tax expenses amounted to HK$11.1 million, representing an increase of HK$5.4 million or 94.7% as compared to HK$5.7 million in last year. The increase in income tax expenses was due to:

(i) even the group incurred a loss during the year, profitable subsidiaries generate assessable tax profit for the during the year;

(ii) Write-off of deferred tax assets amount of HK$8.7 million. Amount of HK$7.8 million arise from derecognised deferred tax assets in respect of the tax losses arising from the Group's clinic and Chinese healthcare products business in Hong Kong.

Future plans for material investments or capital assets

Save for the business plan disclosed in this annual report, the Group did not have any future plans for material investments or capital assets as at 31 December 2019.

Liquidity and Financial Resources

Cash position and interest-bearing bank and other borrowings

As at 31 December 2019, the Group had net current liabilities of HK$41.4 million (31 December 2018: net current assets of HK$131.5 million), of which HK$28.0 million current liability resulted from adoption of HKFRS 16, no such current liability was recorded in last year. The Group net current liabilities also included cash and cash equivalent of HK$68.0 million (31 December 2018: HK$104.9 million) and interest-bearing bank and other borrowings amounting to HK$312.3 million (31 December 2018: HK$354.0 million) and loan from a director amounting to HK$15 million (31 December 2018: 30 million). As at 31 December 2019, the Group's total interest-bearing bank and other borrowing was HK$456.0 million (31 December 2018: HK$518.5 million), unused bank facilities including overdraft amounted to HK$80.2 million (31 December 2018: HK$39.7 million).

Cash flow and liquidity ratio analysis

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Net cash from operating activities	**131,200**	72,461
Net cash used in investing activities	**(91,461)**	(36,088)
Net cash used in financing activities	**(79,246)**	(28,024)
Current ratio	**0.9**	1.2
Gearing ratio	**1.3**	1.0

For the year ended 31 December 2019, the Group's net cash from operating activities was HK$131.2 million, which was primarily attributable to the improvement on the working capitals management, including optimising the procurement and production process, continuous effects on inventory management and expedite the trade receivable collection, for an increment of operating cash inflow.

For the year ended 31 December 2019, the Group's net cash used in investing activities was HK$91.5 million, which was attributable to (i) payment of the remaining land use rights of the lands granted by the Guizhou Government as the TCM plantation center of the Group's subsidiary in Guizhou; (ii) payment for the construction of the TCM plantation center in Guizhou; (iii) increase in pledge of time deposit in the banks as the securities of certain bank facilities of the Group; and (iv) purchase of a financial assets at fair value through profit or loss instrument.

For the year ended 31 December 2019, the Group's net cash used in financing activities was HK$79.2 million, which was mainly resulted from the net decrease in bank and other borrowings of HK$33.9 million and a principal portion of lease payment amounts of HK$30.7 million.

The Group's current ratio decreased from 1.2 as at 31 December 2018 to 0.9 as at 31 December 2019, such decrease was mainly attributable to (i) the decrease in trade and bills receivables resulted from the decrease in sales and better collection during the year ended 31 December 2019; and (ii) increase in trade and bills payables for the settlement of the suppliers.

The Group's gearing ratio (calculated by dividing total interest-bearing bank and other borrowings, and loan from a director by total equity) increase from 1.0 as at 31 December 2018 to 1.3 as at 31 December 2019. Despite the decrease in total interest-bank and other borrowings, and loan from a director by HK$77.5M in aggregate, the significant loss for the year ended 31 December 2019 outweighed the decrease in borrowings, and led to a significant decline in total equity. As a result, the gearing ratio increased.

In order to improve the current ratio and gearing ratio, the Group will consider to leverage on the equity financing. During the year, the Group completed the capitalisation of the loan from the controlling shareholder of HK$30 million from the outstanding principal amount of HK$45 million, by way of issuing 15,544,041 new shares at the issue price of HK$1.93 per share.

On 3 January 2020, the Group proposed a rights issue (the "Rights Issue") to raise about HK$105 million before expenses by issuing 131,630,980 rights shares, on the basis of one rights share for every two then existing Shares at the subscription price of HK$0.80 per rights shares. The Rights Issue was completed on 2 March 2020 and 131,630,980 rights shares were allotted and issued to the shareholders. The Group's total equity was further strengthen upon the completion of the Rights Issue.

The Group will also strengthen the working capital management by closely monitoring the collection of trade and bills receivables and inventory level to increase the operating cash flow to lower the bank and other borrowings level.

Pledge of Assets

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

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Property, plant and equipment	**182,374**	169,617
Right-of-use-assets/prepaid land lease payments	**80,099**	24,916
Financial assets at fair value through profit or loss	**18,195**	10,741
Inventories	**39,113**	40,317
Trade and bills receivables	**62,727**	92,693
Pledged bank deposits	**25,115**	9,000
	407,623	347,284

Capital Commitment

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Land and buildings	**26,579**	30,119
Plant and machinery	**8,142**	20,478
	34,721	50,597

Contingent Liabilities

An action was brought against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedling products) (the "**Agreements**"). Since the plaintiff of the action had not yet provided the evidence regarding the aforesaid claims, the Directors of the Group have made provision of HK$4.0 million for the probability-weighted outcomes might arise from the action (including related legal and other costs) according to the advice from the Group's legal counsel and available evidence on hand. The Company would vigorously contest the action and the claims made against the Group.

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 31 December 2019, the Group had a total of 696 employees (31 December 2018: 641 employees). During the year ended 31 December 2019, total staff costs (excluding Directors' remuneration) was HK$81.1 million (31 December 2018: HK$108.9 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.

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 31 December 2019, the Group had utilised approximately HK$275.6 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	**Total Approximate amount of net proceeds** *(in HK$ million)*	**Approximate amount utilised as at 31 December 2019** *(in HK$ million)*	**Approximate amount unutilised as at 31 December 2019** *(in HK$ million)*
To expand manufacturing facilities and enhance existing production lines	86.5	86.5	—
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	72.1	—
To expand distribution network into new target cities in the PRC	57.7	57.7	—
To fund the development and launch of two new proprietary Chinese medicine products	43.3	30.5	12.8
Additional working capital of the Group	28.8	28.8	—
	288.4	275.6	12.8

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

The Company intends to continue to apply the remaining unutilised portion of the net proceeds in accordance with the section headed "Future Plan and Use of Proceeds" in the prospectus of the Company dated 25 June 2015.

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 year ended 31 December 2019, save as disclosed below, the Company has been in compliance with all applicable code provision 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 ("**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. As of 31 December 2019, the Audit Committee consists of three independent non-executive Directors, namely 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 Dr. Chan Kin Keung, Eugene. 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 our policies and to perform other duties and responsibilities as assigned by our Board. In preparation with the annual results for the year ended 31 December 2019, the Audit Committee discussed the accounting principles and policies adopted by the Group together with the management and the external auditors; and reviewed the consolidated results of the Group for the year ended 31 December 2019 as disclosed in this announcement.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's results for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the required standard of dealing as set out in the Model Code during the year ended 31 December 2019.

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 year ended 31 December 2019.

EVENTS AFTER THE REPORTING PERIOD

Rights Issue and adjustments to the Granted Share Options

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

As a result of the completion of the Rights Issue mentioned above, pursuant to (i) the terms and conditions of share option scheme; and (ii) Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules, the exercise price and the number of shares which may fall to be issued upon exercise of the subscription rights attaching to the granted share options immediately after the adjustments as a result of the completion of the Rights Issue were as follows:

Number of options	Exercise price	Vesting date	Exercise period
3,100,428	HK$2.3	10 May 2020	From vesting date to 9 May 2029
3,100,428	HK$2.3	10 May 2021	From vesting date to 9 May 2029
221,422	HK$2.3	10 May 2022	From vesting date to 9 May 2029
221,422	HK$2.3	10 May 2023	From vesting date to 9 May 2029
6,643,700			

Further details of the adjustments to the Granted Share Options are set out in the announcement dated 28 February 2020 issued by the Company.

Impact of new coronavirus pneumonia pandemic

Since the outbreak of the Pandemic in the PRC, a number of provinces and cities in the PRC have taken emergency public health measures and various regulations and requirements for pandemic prevention and controls were issued by national governments at all levels (the "**Prevention Regulations**"). The Group has actively responded to the Prevention Regulations and resumed the production in the PRC on 3 February 2020 with strict implemented prevention code of conducts for Epidemic.

The outbreak of Pandemic has grown into a large-scale, multi-country pandemic during the first quarter of 2020 producing a challenging situation for all industries and society generally. The outbreak of Pandemic is expected to have negative impact on the global economic environments as well as the Group's financial performance in 2020; however, the Group is not able to estimate the financial effect at the date of this announcement. The Group is paying continuous attention to the everchanging situation in order to respond appropriately with speed in a proactive manner.

Other than disclosed above, there is no event after report period which requires disclosure.

DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 December 2019.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 22 May 2020 and the notice of AGM will be published and despatched in the manner as required by the Listing rules in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the shareholders eligibility to attend the AGM, the register of members of the Company will be closed from Tuesday, 19 May 2020 to Friday, 22 May 2020, both dates inclusive, during which no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on 22 May 2020 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 pm on Monday, 18 May 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com. The annual report of the Company for the year ended 31 December 2019 will also be published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com and will be dispatched to the shareholders of the Company according to the Listing Rules.

FORWARD LOOKING STATEMENTS

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

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

Hong Kong, 24 March 2020

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 Kin Man, Eddie, and Ms. Man Yee Wai, Viola; the non-executive directors of the Company are Mr. Chow, Stanley and Mr. Cheong Shin Keong; and the independent non-executive directors of the Company are Dr. Chan Kin Keung, Eugene,Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee.