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**PuraPharm**

**PURAPHARM CORPORATION LIMITED**

**培力農本方有限公司**

*(Formerly known as 培力控股有限公司 in Chinese)*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1498)**

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

	<b>Six months ended 30 June</b>					
	<b>2022</b>		<b>2021</b>		<b>Change</b>	
	<b>Revenue</b>	<b>% of</b>	<b>Revenue</b>	<b>% of</b>	<b>Change</b>	
	<b>HK\$'000</b>	<b>total</b>	<b>HK\$'000</b>	<b>total</b>	<b>HK\$'000</b>	<b>%</b>
China CCMG	<b>77,429</b>	<b>33.6%</b>	156,880	51.8%	(79,451)	(50.6)
HK and overseas CCMG	<b>83,668</b>	<b>36.3%</b>	72,697	24.0%	10,971	15.1
Chinese healthcare products	<b>38,309</b>	<b>16.6%</b>	39,358	13.0%	(1,049)	(2.7)
Nong's® (農本方®) Chinese medicine clinics	<b>22,061</b>	<b>9.6%</b>	23,897	7.9%	(1,836)	(7.7)
Plantation	<b>9,293</b>	<b>4.0%</b>	9,925	3.3%	(632)	(6.4)
<b>Total</b>	<b><u>230,760</u></b>	<b><u>100.0%</u></b>	<b><u>302,757</u></b>	<b><u>100.0%</u></b>	(71,997)	(23.8)
(Loss)/profit for the period	<b>(39,903)</b>		11,974		(51,877)	(433.2)

The board (the “**Board**”) of directors (the “**Directors**”) of PuraPharm Corporation Limited (the “**Company**”) is pleased to present the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2022 (the “**Reporting Period**”) with the corresponding comparative figures of the six months ended 30 June 2021 and certain comparative audited figures as at 31 December 2021 as follows.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2022</b>	<b>2021</b>
		<b>HK\$’000</b>	<b>HK\$’000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
REVENUE	5	<b>230,760</b>	302,757
Cost of sales		<u><b>(80,655)</b></u>	<u>(106,353)</u>
Gross profit		<b>150,105</b>	196,404
Other income and gains	5	<b>7,899</b>	14,763
Selling and distribution expenses		<b>(82,358)</b>	(92,444)
Administrative expenses		<b>(80,006)</b>	(82,286)
Reversal of impairment/(impairment) of financial assets, net		<b>2,060</b>	(3,221)
Other expenses		<b>(18,405)</b>	(2,338)
Finance costs		<u><b>(13,994)</b></u>	<u>(13,492)</u>
(LOSS)/PROFIT BEFORE TAX	6	<b>(34,699)</b>	17,386
Income tax expense	7	<u><b>(5,204)</b></u>	<u>(5,412)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u><b>(39,903)</b></u>	<u>11,974</u>
Attributable to owners of the parent		<u><b>(39,903)</b></u>	<u>11,974</u>
<b>(LOSS)/EARNINGS PER SHARE</b>			
<b>ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
<b>(expressed in HK cents per share)</b>			
<b>Basic</b>			
— For (loss)/profit for the period	9	<u><b>(10.12)</b></u>	<u>3.04</u>
<b>Diluted</b>			
— For (loss)/profit for the period	9	<u><b>(10.12)</b></u>	<u>3.04</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
(LOSS)/PROFIT FOR THE PERIOD	<u><b>(39,903)</b></u>	<u>11,974</u>
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	<u>(8,609)</u>	<u>839</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>(8,609)</u>	<u>839</u>
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD	<u><b>(48,512)</b></u>	<u>12,813</u>
Attributable to owners of the parent	<u><b>(48,512)</b></u>	<u>12,813</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>30 June 2022</b>	31 December 2021
	<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<b>HK\$'000</b> <b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>334,381</b>	344,114
Investment properties		<b>6,275</b>	6,560
Right-of-use assets		<b>112,062</b>	116,901
Goodwill	<i>10</i>	<b>20,993</b>	20,993
Other intangible assets		<b>39,610</b>	41,062
Financial assets at fair value through profit or loss		<b>18,762</b>	18,562
Biological assets	<i>11</i>	<b>19,205</b>	31,048
Prepayments for non-current assets		<b>7,320</b>	5,283
Deferred tax assets		<b>10,971</b>	10,483
		<hr/>	<hr/>
Total non-current assets		<b>569,579</b>	595,006
<b>CURRENT ASSETS</b>			
Inventories		<b>187,763</b>	166,039
Biological assets	<i>11</i>	<b>22,767</b>	33,759
Trade and bills receivables	<i>12</i>	<b>172,393</b>	261,406
Prepayments, deposits and other receivables	<i>13</i>	<b>70,977</b>	62,351
Tax recoverable		<b>471</b>	2,248
Amount due from related parties		<b>1,264</b>	—
Pledged bank deposits		<b>17,028</b>	25,383
Cash and cash equivalents		<b>39,520</b>	59,671
		<hr/>	<hr/>
Total current assets		<b>512,183</b>	610,857
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>14</i>	<b>150,649</b>	140,679
Other payables and accruals		<b>92,743</b>	97,811
Interest-bearing bank and other borrowings	<i>15</i>	<b>330,829</b>	407,671
Lease liabilities		<b>15,856</b>	13,239
Tax payable		<b>7,321</b>	3,578
Government grants		<b>1,833</b>	2,336
		<hr/>	<hr/>
Total current liabilities		<b>599,231</b>	665,314
<b>NET CURRENT LIABILITIES</b>		<b>(87,048)</b>	(54,457)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>482,531</b>	540,549
		<hr/>	<hr/>

		<b>30 June 2022</b>	31 December 2021
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	(Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		<b><u>482,531</u></b>	<u>540,549</u>
NON-CURRENT LIABILITIES			
Other payables and accruals		<b>15,012</b>	24,157
Interest-bearing bank and other borrowings	<i>15</i>	<b>82,088</b>	91,997
Lease liabilities		<b>27,104</b>	19,052
Government grants		<b>961</b>	1,174
Deferred tax liabilities		<b>3,351</b>	2,611
Total non-current liabilities		<b><u>128,516</u></b>	<u>138,991</u>
Net assets		<b><u><u>354,015</u></u></b>	<u><u>401,558</u></u>
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Share capital	<i>16</i>	<b>306,820</b>	306,042
Shares held for share award scheme	<i>17(b)</i>	<b>(2,859)</b>	(3,221)
Reserves		<b>50,054</b>	98,737
Total equity		<b><u><u>354,015</u></u></b>	<u><u>401,558</u></u>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		<b>HK\$'000</b> (Unaudited)	<b>HK\$'000</b> (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss)/profit before tax:		<b>(34,699)</b>	17,386
Adjustments for:			
Finance costs		<b>13,994</b>	13,492
Foreign exchange difference, net	6	<b>867</b>	1,580
Fair value loss/(gain) on biological assets, net	6	<b>14,066</b>	(4,438)
Loss on disposal of property, plant and equipment	6	—	9
Fair value gain on financial assets at fair value through profit or loss	5	<b>(200)</b>	—
Share option expense	17(a)	<b>127</b>	2,355
Equity-settled share award expense	17(b)	<b>39</b>	169
Depreciation of property, plant and equipment	6	<b>16,494</b>	14,652
Depreciation of right-of-use assets	6	<b>10,076</b>	11,131
Amortisation of other intangible assets	6	<b>1,738</b>	2,467
Impairment of property, plant and equipment (Reversal of impairment)/impairment of trade and bills receivables, net	6	—	183
Write-down of inventories to net realisable value	6	<b>(2,060)</b>	3,221
Bank interest income	5	<b>230</b>	2,945
		<b>(264)</b>	(64)
		<b>20,408</b>	65,088
(Increase)/decrease in inventories		<b>(17,044)</b>	19,599
Increase in biological assets		<b>(4,286)</b>	(11,681)
Decrease/(increase) in trade and bills receivables		<b>83,485</b>	(17,530)
(Increase)/decrease in prepayments, deposits and other receivables		<b>(10,738)</b>	811
Increase/(decrease) in trade and bills payables		<b>16,065</b>	(13,622)
Decrease in government grants		<b>(619)</b>	(1,304)
Decrease in other payables and accruals		<b>(12,720)</b>	(13,794)

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Cash generated from operations	<b>74,551</b>	27,567
Interest received	<b>264</b>	64
Hong Kong income tax paid	<b>(3,632)</b>	(3,392)
Overseas profits tax paid	<b>(930)</b>	(271)
PRC corporate income tax reduction and refund	<b>4,800</b>	832
	<hr/>	<hr/>
Net cash flows generated from operating activities	<b>75,053</b>	24,800
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	<b>(11,656)</b>	(26,319)
Proceeds from disposal of items of property, plant and equipment and other intangible assets	<b>908</b>	—
Addition to intangible assets	<b>(1,265)</b>	(7,572)
Decrease in pledged deposits	<b>8,355</b>	7,996
	<hr/>	<hr/>
Net cash flows used in investing activities	<b>(3,658)</b>	(25,895)
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in amount due from related parties	<b>(1,264)</b>	—
Proceeds from issue of shares upon exercise of share options	<b>803</b>	—
New bank loans	<b>103,641</b>	141,388
Repayment of bank loans	<b>(182,822)</b>	(124,284)
Increase/(decrease) in overdrafts	<b>6,965</b>	(6,958)
Interest paid	<b>(13,994)</b>	(13,492)
Principal portion of lease payment	<b>(9,015)</b>	(16,698)
	<hr/>	<hr/>
Net cash flows used in financing activities	<b>(95,686)</b>	(20,044)
	<hr/>	<hr/>

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(24,291)</b>	(21,139)
Cash and cash equivalents at beginning of period	<b>59,671</b>	91,401
Effect of foreign exchange rate changes, net	<b>4,140</b>	3,340
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b><u>39,520</u></b>	<u>73,602</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b><u>39,520</u></b>	<u>73,602</u>



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION AND REORGANISATION

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

The Company is an investment holding company. During the six months ended 30 June 2022 (the “**Reporting Period**”), the Group is principally engaged in the research, development, production and sale of concentrated Chinese medicine granule (“**CCMG**”) products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and manufacturing and sales of Traditional Chinese Medicine (“**TCM**”) decoction pieces (“**中藥飲片**”), as well as rendering of Chinese medical diagnostic services.

In the opinion of the board of directors of the Company (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 interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

As at 30 June 2022, the Group had net current liabilities of HK\$87.0 million (31 December 2021: HK\$54.5 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 implementing 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 30 June 2022, the Group had unutilised bank facilities amounting to HK\$151.8 million (note 15), which could be utilised 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 and unutilised bank facilities, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the condensed consolidated financial statements of the Group for the six months ended 30 June 2022 on a going concern basis.

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

### 4. OPERATING SEGMENT INFORMATION

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

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

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

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

The following tables present revenue, profit and other segment information for the Group's operating segments for the six months ended 30 June 2022 and 2021.

**Six months ended 30 June 2022 (Unaudited)**

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Segment revenue:</b>							
Revenue from external customers	77,429	83,668	38,309	22,061	9,293	—	230,760
Intersegment sales	56,829	4,900	676	—	62,041	(124,446)	—
	<u>134,258</u>	<u>88,568</u>	<u>38,985</u>	<u>22,061</u>	<u>71,334</u>	<u>(124,446)</u>	<u>230,760</u>
<b>Segment results</b>	2,315	23,594	1,482	(2,376)	(11,837)	—	13,178
<i>Reconciliations:</i>							
Interest income							264
Foreign exchange difference, net							(867)
Equity-settled share award and Share option expense							(166)
Finance costs (other than interest on lease liabilities)							(13,310)
Corporate and other unallocated expenses							<u>(33,798)</u>
Loss before tax							(34,699)
Income tax expense							<u>(5,204)</u>
<b>Net loss</b>							<u><u>(39,903)</u></u>

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Other segment information:</b>							
Depreciation and amortisation of property, plant and equipment and other intangible assets	6,884	1,300	2,225	4,730	3,093	—	18,232
Depreciation of right-of-use assets	1,882	—	3,228	3,986	980	—	10,076
Write-down of inventories to net realisable value	103	—	57	—	70	—	230
Reversal of impairment loss on trade and bills receivables, net	(1,753)	272	335	—	(914)	—	(2,060)
Government grants	4,062	—	132	640	923	—	5,757
Capital Expenditure <sup>#</sup>	<u>22,884</u>	<u>90</u>	<u>10,792</u>	<u>10,147</u>	<u>—</u>	<u>—</u>	<u>43,913</u>

### Six months ended 30 June 2021 (Unaudited)

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Segment revenue:</b>							
Revenue from external customers	156,880	72,697	39,358	23,897	9,925	—	302,757
Intersegment sales	<u>44,617</u>	<u>1,838</u>	<u>867</u>	<u>—</u>	<u>1,164</u>	<u>(48,486)</u>	<u>—</u>
	<u>201,497</u>	<u>74,535</u>	<u>40,225</u>	<u>23,897</u>	<u>11,089</u>	<u>(48,486)</u>	<u>302,757</u>
<b>Segment results</b>	29,716	17,467	10,794	(1,963)	(1,653)	—	54,361
<i>Reconciliations:</i>							
Interest income							64
Foreign exchange difference, net							(1,580)
Equity-settled share award and Share option expense							(2,524)
Finance costs (other than interest on lease liabilities)							(12,203)
Corporate and other unallocated expenses							<u>(20,732)</u>
Profit before tax							17,386
Income tax expense							<u>(5,412)</u>
<b>Net profit</b>							<u>11,974</u>

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
<b>Other segment information:</b>							
Depreciation and amortisation of property, plant and equipment and other intangible assets	7,231	1,369	2,017	4,136	2,366	—	17,119
Depreciation of right-of-use assets	4,127	578	2,701	2,770	955	—	11,131
Loss on disposal of items of property, plant and equipment	9	—	—	—	—	—	9
Write-down of inventories to net realisable value	2,945	—	—	—	—	—	2,945
Impairment loss on property, plant and equipment	56	—	—	75	52	—	183
Impairment loss on trade and bills receivables, net	3,221	—	—	—	—	—	3,221
Capital Expenditure <sup>#</sup>	<u>17,603</u>	<u>865</u>	<u>655</u>	<u>4</u>	<u>6,990</u>	<u>—</u>	<u>26,117</u>

<sup>#</sup> Capital expenditure consists of additions to right-of-use assets amounted to HK\$19,902,000 (six months ended 30 June 2021: HK\$6,627,000).

## 5. REVENUE, OTHER INCOME AND GAINS

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

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<i>Revenue from contracts with customers</i>		
Sales of CCMG products	<b>177,598</b>	247,311
Sales of Chinese healthcare products	<b>38,309</b>	39,358
Sales of raw Chinese herbs	<b>9,293</b>	9,925
Rendering of Chinese medical diagnostic services (the "Diagnostic Services")	<b>5,560</b>	6,163
	<u><b>230,760</b></u>	<u>302,757</u>

## Disaggregated revenue information

Segments	For the six months ended 30 June					
	2022			2021		
	Sale of goods	Diagnostic services	Total	Sale of goods	Diagnostic services	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Types of goods or services</b>						
Sale of goods	225,200	—	225,200	296,594	—	296,594
Rendering of services	—	5,560	5,560	—	6,163	6,163
Total revenue from contracts with customers	<u>225,200</u>	<u>5,560</u>	<u>230,760</u>	<u>296,594</u>	<u>6,163</u>	<u>302,757</u>
<b>Geographical markets</b>						
Hong Kong	115,733	5,560	121,293	107,042	5,793	112,835
Mainland China	87,598	—	87,598	168,848	370	169,218
Other countries/regions	21,869	—	21,869	20,704	—	20,704
Total revenue from contracts with customers	<u>225,200</u>	<u>5,560</u>	<u>230,760</u>	<u>296,594</u>	<u>6,163</u>	<u>302,757</u>
<b>Timing of revenue recognition</b>						
Goods transferred at a point in time	225,200	—	225,200	296,594	—	296,594
Services transferred over time	—	5,560	5,560	—	6,163	6,163
Total revenue from contracts with customers	<u>225,200</u>	<u>5,560</u>	<u>230,760</u>	<u>296,594</u>	<u>6,163</u>	<u>302,757</u>

*Other income and gains*

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Government grants*	5,757	6,435
Fair value gain on biological assets, net	—	4,438
Fair value gain on financial assets at fair value through profit or loss	200	—
Gain from the sale of equipment and accessories	—	1,035
Reversal of over-provision of litigations	—	1,553
Bank interest income	264	64
Others	1,678	1,238
	<u>7,899</u>	<u>14,763</u>

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

## 6. (LOSS)/PROFIT BEFORE TAX

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Cost of inventories sold	<b>77,688</b>	102,954
Cost of services provided	<b>2,967</b>	3,399
Depreciation of property, plant and equipment	<b>16,494</b>	14,652
Depreciation of right-of-use assets	<b>10,076</b>	11,131
Amortisation of other intangible assets	<b>1,738</b>	2,467
Research and development costs*	<b>8,965</b>	11,926
Lease payments not included in the measurement of lease liabilities:		
Land and buildings	<b>2,151</b>	2,931
Auditors' remuneration	<b>1,098</b>	1,195
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	<b>38,981</b>	46,437
Pension scheme contributions	<b>4,253</b>	4,771
Share option expenses ( <i>note 17(a)</i> )	<b>39</b>	174
Equity-settled share award expenses ( <i>note 17(b)</i> )	<b>15</b>	91
	<b>43,288</b>	51,473
Foreign exchange difference, net**	<b>867</b>	1,580
Fair value loss/(gain) on biological assets, net	<b>14,066</b>	(4,438)
Loss on disposal of property, plant and equipment	<b>—</b>	9
(Reversal of impairment)/impairment loss on trade and bill receivables, net	<b>(2,060)</b>	3,221
Impairment loss on property, plant and equipment	<b>—</b>	183
Write-down of inventories to net realisable value***	<b>230</b>	2,945

\* HK\$902,000 (six months ended 30 June 2021: HK\$809,000) disclosed in the item of "Depreciation" and HK\$3,556,000 (six months ended 30 June 2021: HK\$4,606,000) disclosed in the item of "Employee benefit expenses" were also included in "Research and development costs" for the six months ended 30 June 2022.

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

\*\*\* 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

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% (six months ended 30 June 2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

U.S. profits tax has been provided at the federal rate of 21.0% and the state rate of 8.8% as well as Japan profits tax has been provided at the rate of 34.1% on the estimated assessable profits arising in the respective jurisdictions during the six months ended 30 June 2022.

The statutory tax rate of the Group in respect of its operation in Mainland China is 25.0% (six months ended 30 June 2021: 25.0%). 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 15.0% (six months ended 30 June 2021: 15.0%). According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) DZ Plantation Co., Ltd and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd have obtained the documentation acknowledged by the in-charge tax authority for the CIT exemption for the six months ended 30 June 2022 and 2021 and the preferential income tax rate was 0.0%.

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current	5,329	5,021
Deferred	(125)	391
Total tax charge for the period	<u>5,204</u>	<u>5,412</u>

## 8. DIVIDENDS

No interim dividend was proposed for the six months ended 30 June 2022 and 2021.

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

### (a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2022 excluding ordinary shares purchased by the Group and held for Award Scheme (note 17(b)).

	<b>Six months ended 30 June</b>	
	<b>2022</b> <b>(Unaudited)</b>	2021 (Unaudited)
(Loss)/profit attributable to the owners of the parent (HK\$'000)	<u><b>(39,903)</b></u>	<u>11,974</u>
Number of issued shares on 1 January	<b>394,892,942</b>	394,892,942
Exercise of share options	<b>166,464</b>	—
Adjustment for vested shares under share award scheme	<u><b>(950,438)</b></u>	<u>(1,368,708)</u>
Weighted average number of ordinary shares in issue during the period	<u><b>394,108,968</b></u>	<u>393,524,234</u>
Basic (loss)/earnings per share (expressed in HK cents per share)	<u><b>(10.12)</b></u>	<u>3.04</u>

**(b) Diluted**

Diluted (loss)/earnings per share is calculated by dividing the (loss)/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 Shares under the Award Scheme.

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>(Unaudited)</b>	(Unaudited)
(Loss)/profit attributable to the owners of the parent (HK\$'000)	<u><b>(39,903)</b></u>	<u>11,974</u>
Weighted average number of ordinary shares in issue during the period	<b>394,108,968</b>	393,524,234
Adjustment for Award Shares	<u>—</u>	<u>852,717</u>
Weighted average number of ordinary shares for diluted earnings per share calculation	<u><b>394,108,968</b></u>	<u>394,376,951</u>
Diluted (loss)/earnings per share (expressed in HK cents per share)	<u><b>(10.12)</b></u>	<u>3.04</u>

The Group had no potentially dilutive ordinary shares in issue for share options and share award scheme during the six months ended 30 June 2022 as they had an anti-dilutive effect on the basic loss per share amounts presented (six months ended 30 June 2021: no potentially dilutive ordinary shares in issue for share options as its exercise price is higher than market price).

**10. GOODWILL**

	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
At 1 January	<b>20,993</b>	88,339
Impairment recognises during the period/year	<u>—</u>	<u>(67,346)</u>
At 30 June/31 December	<u><b>20,993</b></u>	<u>20,993</u>

## Impairment testing of goodwill

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

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

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

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
Chinese herbal products CGU	13,705	13,705
SODX CGU	7,288	7,288
	<u>20,993</u>	<u>20,993</u>

## 11. BIOLOGICAL ASSETS

	<b>2022 HK\$'000 (Unaudited)</b>	2021 HK\$'000 (Audited)
As at 1 January	64,807	105,110
Addition during the period/year	4,463	30,797
Fair value loss on biological assets, net	(14,066)	(47,459)
Harvest during the period/year	(10,804)	(25,842)
Exchange realignment	(2,428)	2,201
	<u>41,972</u>	<u>64,807</u>
As at 30 June/31 December	41,972	64,807
Portion classified as non-current portion	(19,205)	(31,048)
	<u>22,767</u>	<u>33,759</u>

The biological assets of the Group are raw Chinese herbs. The Group harvested raw Chinese herbs with a fair value less estimated cost to sell of HK\$10,804,000 (31 December 2021: HK\$25,842,000) during the Reporting Period.

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

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

- (i) the raw Chinese herbs will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;
- (ii) the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as life of raw Chinese herbs;
- (iii) estimated yields of raw Chinese herbs are estimated based on the amount planted, health condition, expected death rate, and production conversion rate (from the number of plants to Chinese herbs in kg) if necessary;
- (iv) the expected prices and price growth rate of raw Chinese herbs are estimated based on the historical average district prices; and
- (v) a market-derived discount rate of 15% is applied to the projection of the Periodic Cash Flow.

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

## 12. TRADE AND BILLS RECEIVABLES

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
Trade receivables	<b>210,755</b>	269,569
Bills receivables	<b>1,717</b>	35,689
	<b>212,472</b>	305,258
Less: impairment of trade and bills receivables	<b>(40,079)</b>	(43,852)
	<b>172,393</b>	261,406

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

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

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
Within 1 month	<b>55,268</b>	93,694
1 to 3 months	<b>9,508</b>	54,780
3 to 6 months	<b>40,387</b>	63,800
6 months to 1 year	<b>54,357</b>	39,417
over 1 year	<b>12,873</b>	9,715
	<b>172,393</b>	261,406

### 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
Prepayments	41,230	28,838
Right of return assets	1,526	2,411
Deposit and other receivables	<u>35,782</u>	<u>36,888</u>
	<b>78,538</b>	68,137
Less: impairment allowance	<u>(241)</u>	<u>(503)</u>
	<b>78,297</b>	67,634
Portion classified as non-current	<u>(7,320)</u>	<u>(5,283)</u>
Current portion	<u><b>70,977</b></u>	<u>62,351</u>

### 14. TRADE AND BILLS PAYABLES

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

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
Within 1 month	61,333	49,163
1 to 2 months	9,047	14,364
2 to 3 months	14,590	11,139
Over 3 months	<u>65,679</u>	<u>66,013</u>
	<u><b>150,649</b></u>	<u>140,679</u>

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

## 15. INTEREST-BEARING BANK AND OTHER BORROWINGS

		30 June 2022 (Unaudited)	
	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>			
Bank overdraft — secured	4.25–5.25	on demand	9,128
Bank loans — secured	1.95–7.00	on demand	107,564
Bank loans and other borrowings — secured	0.85–8.00	2022–2023	123,538
Bank loans — unsecured	3.80–4.66	2022–2023	27,071
Bank loans — unsecured	4.50	on demand	53,255
Other borrowings — unsecured	8.50–11.08	2023	10,273
			<hr/>
			330,829
			<hr/>
<b>Non-current</b>			
Bank loans and other borrowings — secured	0.85–5.73	2023–2030	58,660
Other borrowings — unsecured	10.00	2023	23,428
			<hr/>
			82,088
			<hr/>
Total			<u><u>412,917</u></u>



31 December 2021  
(Audited)

	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>			
Bank overdraft — secured	4.25–5.25	On demand	2,163
Bank loans — secured	2.25–7.00	On demand	102,844
Bank loans and other borrowings — secured	0.85–8.00	2022	200,596
Bank loans — unsecured	4.50	On demand	56,445
Bank loans — unsecured	4.35–5.66	2022	34,619
Other borrowings — unsecured	11.08	2022	11,004
			<u>407,671</u>
<b>Non-current</b>			
Bank loans and other borrowings — secured	0.85–5.73	2023–2030	66,595
Other borrowings — unsecured	10.00–11.08	2023	25,402
			<u>91,997</u>
Total			<u><u>499,668</u></u>

<b>30 June</b>	31 December
<b>2022</b>	2021
<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(Unaudited)</b>	<b>(Audited)</b>

Analysed into:

Bank loans and other borrowings payable:

Within one year or on demand	<b>330,829</b>	407,671
In the second year	<b>32,246</b>	34,923
In the third to fifth years, inclusive	<b>27,032</b>	28,563
Beyond five years	<b>22,810</b>	28,511
	<u><b>412,917</b></u>	<u>499,668</u>

Interest-bearing bank and other borrowings are denominated in:

	<b>30 June 2022 HK\$'000 (Unaudited)</b>	31 December 2021 HK\$'000 (Audited)
HK\$	<b>134,512</b>	122,327
RMB	<b>275,610</b>	373,805
JPY	<b>2,795</b>	3,536
	<b><u>412,917</u></b>	<b><u>499,668</u></b>

*Note:*

- (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\$100,245,000 (31 December 2021: HK\$177,901,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$43,291,000 (31 December 2021: HK\$50,537,000) that is repayable after one year from the end of the Reporting Period has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.
- (b) As at 30 June 2022, the Group was not in compliance with certain loan covenants as stipulated in the agreements of the bank loans amounting to approximately HK\$133,935,000 (31 December 2021: HK\$124,068,000). Bank loans amounting to HK\$77,767,000 (31 December 2021: HK\$53,527,000), out of the HK\$133,935,000, are repayable on demand and have already been accounted for as current liabilities; and the remaining balance of HK\$56,168,000 (31 December 2021: HK\$70,541,000) which are repayable beyond 12 months, have already been accounted for as current liabilities. Waivers for the breach of these covenants of the loans amounting to HK\$64,233,000 have been obtained subsequent to the financial statements date.
- (c) As at 30 June 2022, the Group’s bank facilities including overdraft were amounting to HK\$569,182,000 (31 December 2021: HK\$567,400,000) of which HK\$417,349,000 (31 December 2021: HK\$499,668,000) had been utilised.

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

	<b>Carrying value</b>	
	<b>30 June</b>	31 December
	<b>2022</b>	2021
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	(Audited)
Property, plant and equipment	<b>177,235</b>	158,870
Right-of-use assets	<b>34,965</b>	37,826
Financial assets at fair value through profit or loss	<b>18,762</b>	18,562
Inventories	—	42,858
Trade and bills receivables	<b>16,962</b>	54,775
Pledged bank deposits	<b>17,028</b>	25,383
Investment Property	<b>6,275</b>	6,560
	<u><b>271,227</b></u>	<u>344,834</u>

## 16. SHARE CAPITAL

	<b>30 June</b>	31 December
	<b>2022</b>	2021
	<b>HK\$'000</b>	<b>HK\$'000</b>
Authorised:		
50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	<u><b>38,750,000</b></u>	<u>38,750,000</u>
Issued and fully paid:		
395,897,275 (31 December 2021: 394,892,941) ordinary shares of US\$0.1 (HK\$0.775) each	<u><b>306,820</b></u>	<u>306,042</u>

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

	Number of shares in issue	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2021	394,892,941	306,042	220,658	526,700
Vesting of Share Award Scheme (note 17(b))	—	—	531	531
At 31 December 2021 and 1 January 2022	394,892,941	306,042	221,189	527,231
Share options exercised (note 17(a))	1,004,334	778	315	1,093
Vesting of Share Award Scheme (note 17(b))	—	—	67	67
At 30 June 2022	<u>395,897,275</u>	<u>306,820</u>	<u>221,571</u>	<u>528,391</u>

## 17. SHARE OPTION SCHEME AND SHARES HELD FOR THE SHARE AWARD SCHEME

### (a) Share option scheme

The Company operates a share option scheme (the “**Option Scheme**”) for the purpose to recognise and acknowledge the contributions that the eligible participants of the Option Scheme had or may have made to the Company. Eligible participants of the Option Scheme include any full-time or part-time employees, executives or officers of the Company and its subsidiaries, directors (including independent non-executive directors) of the Company and its subsidiaries and advisers, consultants, supplier, customers, distributors and other persons upon the terms set out in the Option Scheme (the “**Eligible Option Participants**”). The Option Scheme was adopted pursuant to the resolutions of the Company's shareholders passed on 12 June 2015 (the “**Adoption Date**”) and shall be valid and effective for a period of 10 years commencing on the Adoption Date. The maximum number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the Listing Date (i.e., 22,500,000 shares) unless the Company obtains approval from its shareholders in general meeting and/or such other requirements prescribe under the Listing Rules and must not exceed 30% of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue, unless approval of the Company's shareholders in general meeting and/or such other requirements prescribe under the Listing Rules is obtained.

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

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

On 9 May 2019, the Board has resolved to grant share options to certain Directors and employees of the Company, entitling them to subscribe for a total of 6,376,000 ordinary shares of the Company. The exercise price and the number of shares were adjusted upon completion of the Rights Issue on 2 March 2020.

On 24 July 2020, the Board has resolved to grant share options to certain Directors and employees of the Company, entitling them to subscribe for a total of 16,124,000 ordinary shares of the Company. Among the options resolved to grant, 4 employees did not accept the grant and out of the 16,124,000 options, 800,000 options were not granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

The following share options were outstanding under the Option Scheme:

**As at 30 June 2022**

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

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

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

**As at 30 June 2021**

	Weighted average exercise price <i>HK\$</i> (Unaudited)	Number of options '000 (Unaudited)
At 1 January 2021	1.25	21,797
Adjustment during the period	2.30	(7)
Forfeited during the period	0.80	(200)
At 30 June 2021	<u>1.25</u>	<u>21,590</u>

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

Number of options	Exercise price	Vesting date	Exercise period
3,056,144	HK\$2.3*	10 May 2020	From vesting date to 9 May 2029
3,056,144	HK\$2.3*	10 May 2021	From vesting date to 9 May 2029
177,137	HK\$2.3*	10 May 2022	From vesting date to 9 May 2029
177,137	HK\$2.3*	10 May 2023	From vesting date to 9 May 2029
7,622,000	HK\$0.8	23 July 2021	From vesting date to 23 July 2030
7,102,000	HK\$0.8	23 July 2022	From vesting date to 23 July 2030
400,000	HK\$0.8	23 July 2023	From vesting date to 23 July 2030
<u>21,590,562</u>			

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

Details of the share option expenses of the Group during the six months ended 30 June 2022 and 2021 is listed as below:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Share option expenses recognised during the period	<b>606</b>	2,386
Forfeited during the period	<b>(479)</b>	(31)
	<hr/>	<hr/>
Net share option expenses recognised during the period	<b><u>127</u></b>	<u>2,355</u>
	<hr/>	<hr/>
Less: Included in directors' remuneration	<b>(88)</b>	(2,181)
	<hr/>	<hr/>
Employee benefit expenses	<b><u>39</u></b>	<u>174</u>

The fair value of the share options granted during 2020 and 2019 was HK\$4,453,000 and HK\$7,893,000 respectively, of which the Group recognised a share option expense of HK\$127,000 in aggregate during the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$2,355,000).

At the end of the Reporting Period, the Company had 16,329,000 share options outstanding under the Scheme, which represented approximately 4.1% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 16,329,000 additional ordinary shares of the Company and additional equity amount of HK\$22,493,000 (before issue expenses).

**(b) Shares held for the share award scheme**

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

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

As at 30 June 2022, the Share Award Scheme Trust holds 844,335 (31 December 2021: 959,335) shares of the Company. During the six months ended 30 June 2022, no share (six months ended 30 June 2021: Nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 115,000 shares were vested (six months ended 30 June 2021: 956,665).

#### *Granted Award shares*

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

On 25 August 2020, the board of the directors of the Company resolved to grant share awards in respect of a total of 1,000,000 shares to Mr. SK Cheong. This director was re-designated as a non-executive director in June 2021 and retired in March 2022. All of the awarded shares were vested or forfeited at the end of the reporting period.



Summary of particulars of the Award Shares is as follows:

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

Details of the equity-settled share award expenses of the Group during the six months ended 30 June 2022 and 2021 is listed as below:

	Six months ended 30 June	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Gross amount of recognition share award expenses	49	387
Forfeited during the period	(10)	(218)
Net share award expenses recognised during the period	<u>39</u>	<u>169</u>
Less: Included in directors' remuneration	(24)	(78)
Employee benefit expenses	<u>15</u>	<u>91</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### PROSPECTS

With the Chinese Government tightening supervision and quality control on TCM decoction pieces (including Chinese medicine granules), and the declining sales in hospitals due to the outbreak of the COVID-19 pandemic in China during the six months ended 30 June 2022 (“**2022 Interim Period**”), the Chinese medicine granules market in China was experiencing negative growth. As a result, the Group’s performance in the concentrated granules market deteriorated and the main source of revenue declined. The Group’s revenue during the 2022 Interim Period was HK\$230.8 million, representing a decrease of HK\$72.0 million or 23.8% as compared to the corresponding period of last year. The Group reported a net loss of HK\$39.9 million for the 2022 Interim Period as compared with the net profit of HK\$12.0 million in the corresponding period of last year. Such net loss was mainly driven by the decrease in China CCMG sales during the 2022 Interim Period.

The Group has been closely monitoring the latest development of the pandemic and fighting against the pandemic in joint hands with the people to tide over the difficulties. In the fifth wave of the outbreak of the pandemic in Hong Kong in early 2022, which brought the public healthcare system to the brink of paralysis, many patients contracting COVID-19 could only be isolated at home. In view of this, the Group joined hands with the Democratic Alliance for the Betterment and Progress of Hong Kong and the Hong Kong Registered Chinese Medicine Practitioners Association for providing online free medical consultations to those patients. Through this campaign, the Group hoped to help alleviate the burden of the public healthcare system and care about the needs of the patients isolated at home by providing Chinese medicine to the patients in need, thus serving the needs of the society. During this exceptional pandemic fighting time and even in the post pandemic future, the Group believes that consumers’ health awareness will continue to increase; the demand for healthcare products will continue to rise and Chinese medicine will play a much more important role because of its active herbal ingredients and the powerful botanic science behind. The Group has taken the opportunity to actively promote Chinese healthcare products by offering anti-pandemic treatment kits in clinics, which has achieved promising results. Under these difficult circumstances, we are pleased that our Cough Formula products have been well received with relatively high sales, generating revenue for the Company.

Looking ahead, China will continue to implement the reform of pharmaceutical and healthcare system and push forward new policies in the three-medicine linkage of “medical insurance, medical service and medicines”. On the one hand, dynamic adjustment of the medical insurance catalogue, the fourth batch of centralized drug procurement, the first batch of medical devices with volume procurement and other new policies have further squeezed the profit margins of pharmaceutical enterprises. Pharmaceutical manufacturers are facing challenges such as pressure on restructuring and adjusting their marketing models. On the other hand, China has introduced a number of policies to encourage original

ground medicine and innovative drugs, which support pharmaceutical enterprises to increase investment in research and development, together with continuously implementation of “Internet + medical insurance + medical service + medicines” related policies, such as online medical insurance payment, internet hospitals and electronic prescription circulation. To cope with the new policies, the pharmaceutical industry in China urgently needs to change the traditional development model, which would allow them to transform and upgrade to a more innovative and standardized direction. It is expected that pharmaceutical enterprises will inevitably continue to face the challenges brought by the reform.

For the Chinese medicine granules segment, the release of the “Announcement on Ending the Pilot Scheme of Chinese Medicine Granules” marked the end of the pilot work of Chinese medicine granules and the commencement of the implementation of the national standards, ushering in the development period of the full release of Chinese medicine granules. In the short term, during the transitional period of the implementation of the national standards, the national and provincial standards of formula granules are not comprehensive, which will make the provincial formula granule enterprises to have the opportunity to produce and sell other varieties of formula granules, and local protection will still exist. With the increased coverage of the national standards for formula granules, the formula granule industry is conducive to strengthening the market-oriented development. With our dedication in Chinese medicine modernization, the Group will continue to maintain the high quality of our CCMG products; discover new effective extracts from plants, and proactively develop innovative healthcare products featuring natural ingredients. The Group will continue to actively develop innovative healthcare products to enrich its product portfolio and focus more on marketing the Group’s competitive products online to reach a wider customer base in preparation for the recovery of the retail market.

The Group is deeply committed to the Chinese medicine sector while maintaining diversified development. In respect of store retail business, the Group will continue to optimize Nong’s® Chinese medicine clinics to provide modern Chinese medicine consultation services and improve the store network by using the store-for-store approach to meet the needs of the public. The Group will also enter the Greater Bay Area market in China by opening chain stores under franchise. The Group’s newest flagship store in Central, Hong Kong is “NONG’s® Central Affiliated Clinics Grade Acupuncture Center (農本方®中環特約診所級針灸中心)”, which allow the Group to further develop its physical retail business. Through a wide range of treatment services, complemented by high-end brands and quality customer services, the Group is committed to providing customers with the most professional, safe and effective Chinese medical treatment services. At the same time, the Group has allocated budget to continuously optimize the cloud-based consultation and management system launched by full-range Nong’s® Chinese medicine clinics to provide medical consultation analytics platform to conduct evidence-based medical research and big data analytics of Chinese medicine consultations and prescription cases, providing a brand new experience to Chinese medicine practitioners and patients to support the Chinese medicine business in all aspects. In the future, the Group will strengthen two major strategies in its operation:

first, to reach out to small clinics and develop new sales points; second, to adhere to the Greater Bay Area layout by setting up an office in Shenzhen and hiring high-calibre people to manage the business, and strive to bring the business operation back to normal by the end of the third to fourth quarter of 2022. Meanwhile, the Group will continue to transform the online retailing business to cater for the younger generation with extensive social marketing initiatives, optimize the digitalization of the retail business to boost our revenue and create more value for our shareholders.

## FINANCIAL REVIEW

	Six months ended 30 June					
	2022		2021		Change	
	Revenue	% of	Revenue	% of	Change	%
	HK\$'000	total	HK\$'000	total	HK\$'000	
China CCMG	77,429	33.6%	156,880	51.8%	(79,451)	(50.6)
HK and overseas CCMG	83,668	36.3%	72,697	24.0%	10,971	15.1
Chinese healthcare products	38,309	16.6%	39,358	13.0%	(1,049)	(2.7)
Nong's® (農本方®)						
Chinese medicine clinics	22,061	9.6%	23,897	7.9%	(1,836)	(7.7)
Plantation	9,293	4.0%	9,925	3.3%	(632)	(6.4)
Total	<u>230,760</u>	<u>100.0%</u>	<u>302,757</u>	<u>100.0%</u>	(71,997)	(23.8)
(Loss)/profit for the period	(39,903)		11,974		(51,877)	(433.2)

### China CCMG

During the 2022 Interim Period, the China CCMG market was significantly impacted by the implementation of the new national standards in November 2021. Therefore, the sales of CCMG in China was HK\$77.4 million, representing a decrease of HK\$79.5 million or 50.6% compared to HK\$156.9 million for the corresponding period in last year. The decrease in revenue from China CCMG business during the 2022 Interim Period was mainly attributable to (i) the temporary shortage of the number of prescribed national standards and provincial standards for CCMG, which has hindered the use of CCMG in prescriptions by hospitals and clinics, resulting in an adverse impact on sales during the 2022 Interim Period; (ii) the stocking up on CCMG products by some hospitals before the new policy was implemented in November 2021, which has reduced demand temporarily after the implementation of the new policy; and (iii) with the cost of CCMG produced under the prescribed national standards higher than before, the market still undergoing adjustment to adopt to the new higher pricing. As a result, the China CCMG sales business decreased especially in second quarter of 2022.

## **Hong Kong and overseas CCMG**

According to a market research performed in 2022, 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 2022 Interim Period, the direct sales of CCMG products in Hong Kong was HK\$83.7 million, representing an increase of HK\$11.0 million or 15.1% compared to HK\$72.7 million for the corresponding period in last year. In the 2022 Interim Period, the Group has improved both the segment's turnover as well as the gross profit through improved pricing strategy, and meeting the market demands by maintaining the stable supply of CCMG products even during the fifth wave of outbreak of COVID-19 pandemic in Hong Kong during the 2022 Interim Period, which caused temporary logistic hiccups to the Group.

During the 2022 Interim Period, the Group still remained as a leading CCMG supplier to the major non-profit organisations in Hong Kong, and continued to expand its customer base in private Chinese medicine practitioners sector.

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

During the 2022 Interim Period, the Group continued to modify the clinic network by closing two clinics upon the expiring of their respective tenancy and started the revamp of another two clinics. Also, a new flagship clinic located in central CBD of Hong Kong has been opened in June 2022, which targets the customers with higher spending power. With the number of clinics in operation in Hong Kong decreased from 25 clinics as at 31 December 2021 to 22 clinics as at 30 June 2022, the revenue generated by the Group's Nong's® (農本方®) Chinese medicine clinics through the sales of CCMG products and provision of Chinese medical diagnostic services decreased to HK\$22.1 by HK\$1.8 million or 7.7% compared to HK\$23.9 million for the corresponding period in last year.

The revenue of Nong's clinics segment recorded a decrease that is proportional to the decrease in number of operating clinics, while the loss attributed by Nong's clinics segment increased during the 2022 Interim Period due to the increased depreciation of right-of-use assets.

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

## Chinese healthcare products

	Six months ended 30 June					
	2022		2021		Change	
	Revenue <i>HK\$'000</i>	% of total	Revenue <i>HK\$'000</i>	% of total	<i>HK\$'000</i>	%
U.S.	14,633	38.2%	15,606	39.7%	(973)	(6.2)
Japan	4,149	10.8%	4,754	12.1%	(605)	(12.7)
Hong Kong	19,527	51.0%	18,998	48.2%	529	2.8
	<b>38,309</b>	<b>100.0%</b>	<b>39,358</b>	<b>100.0%</b>	<b>(1,049)</b>	<b>(2.7)</b>

During the 2022 Interim Period, revenue from sales of Chinese healthcare products in the U.S., Japan and Hong Kong markets was HK\$38.3 million in aggregate, representing a decrease of HK\$1.1 million or 2.7% as compared to HK\$39.4 million in the corresponding period in last year.

Among the Group's Chinese healthcare products segment, the Group's U.S. factory faced supply chain issues caused by the COVID-19 pandemic, which in turn limited its production volume. Therefore, the sales in the U.S. market recorded a decrease of HKD1.0 million, which is the major reason for the decrease of the Chinese healthcare products segment. The mild increase in sales in Hong Kong market is offset by the drop of sales revenue in Japan market due to depreciation of Japanese Yen.

The supply chain issues mentioned above has increased the production cost of the U.S. factory, thus decreased its gross profit and resulted in its net loss.

The Group has invested more resources during the 2022 Interim Period in the marketing and advertising of Chinese healthcare products, the expenses of which are recognized as an expense but should benefit the sales of the Group's various products in near future.



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

## Plantation

For the 2022 Interim Period, the upstream plantation segment contributed HK\$9.3 million to the Group's overall revenue, representing a decrease from HK\$9.9 million recorded in the corresponding period in last year by HK\$0.6 million or 6.4%. The revenue from the plantation segment was mainly derived from the plantation and trading of raw Chinese herbs.

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

## Profitability

	<b>Six months ended 30 June</b>		Change
	<b>2022</b>	2021	
	<b>HK\$'000</b>	HK\$'000	
Revenue	<b>230,760</b>	302,757	(23.8%)
Cost of sales	<b>(80,655)</b>	(106,353)	(24.2%)
Gross profit	<b><u>150,105</u></b>	<u>196,404</u>	<u>(23.6%)</u>
Gross profit margin	<b><u>65.0%</u></b>	<u>64.9%</u>	

The Group's gross profit margin for the 2022 Interim Period was 65.0%, representing an increase of 0.1% compared to 64.9% in the corresponding period in last year. The gross profit margin remained stable due to the combined effect of (i) the increase in gross profit margin in Hong Kong CCMG segment resulted from improved pricing strategy, which was offset by (ii) the decrease in gross profit margin in China CCMG segment because of the temporary challenging industry conditions, competitive trade terms being offered during the transitional period for national standards, and (iii) the drop in gross profit margin in the U.S. business unit, which experienced temporary supply chain issues during 2022 Interim Period.

### **Other income and gains**

The Group's other income and gains mainly comprised of government grants, fair value gain on biological assets, gain from sale of equipment and accessories, financial assets at fair value through profit or loss and interest income. For the 2022 Interim Period, the Group's other income and gain was HK\$7.9 million, representing a decrease of HK\$6.9 million or 46.5% compared to HK\$14.8 million for the corresponding period in last year.

The decrease was mainly attributable to the Group recorded a net fair value loss on biological assets of HK\$14.1 million for the 2022 Interim Period, which is included in the other expenses, whereas the fair value gain on biological asset was HK\$4.4 million in the corresponding period in last year.

### **Selling and distribution expenses**

The Group's selling and distribution expenses mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses and sales and marketing departmental expenses. For the 2022 Interim Period, the Group's selling and distribution expenses was HK\$82.4 million, representing a decrease of HK\$10.1 million or 10.9% compared to HK\$92.4 million for the corresponding period in last year. The decrease was mainly attributable to (i) decrease in the PRC marketing expenses as the China CCMG market was undergoing the adoption to the new national standards and marketing budget was reduced conservatively, and (ii) the lower storage costs in proportion to the drop of China CCMG turnover.

For the 2022 Interim Period, selling and distribution expenses as a percentage to revenue increased from 30.5% in last corresponding period to 35.7%. With the significant sales drop in the 2022 Interim Period, the Group has reacted promptly and controlled some of the variable marketing expenses, but some selling and distribution expenses, which are fixed in nature, may not be able to be adjusted accordingly without damaging the Group's market position, which are important for the expected sales rebound after the end of transitional period of China CCMG market.



## Administrative expenses

	Six months ended			
	30 June			
	2022	2021	Change	
	HK\$'000	HK\$'000	HK\$'000	%
Clinics operating expenses	16,831	18,000	(1,169)	(6.5)
Research and development costs	8,965	11,926	(2,961)	(24.8)
General administrative expenses	54,210	52,360	1,850	3.5
Total administrative expenses	<u>80,006</u>	<u>82,286</u>	(2,280)	(2.8)

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

For the 2022 Interim Period, the Group's operating expenses for clinics was HK\$16.8 million, representing a decrease of HK\$1.2 million or 6.5% compared to HK\$18.0 million for the corresponding period in last year. The decrease was mainly attributable to the modification and downsizing of clinic network and in Hong Kong. The number of clinics in operation in Hong Kong decreased from 25 clinics as at 31 December 2021 to 22 clinics as at 30 June 2022.

The research and development costs for the 2022 Interim Period decreased by HK\$3.0 million or 24.8%, mainly due to the decrease in service fee paid to external research partners as development progress of certain projects was slowed down during the 2022 Interim Period. The Group's general administrative expenses for the 2022 Interim Period increased by HK\$1.9 million or 3.6%, which was mainly due to the increase in headcount of staff in the Group's corporate marketing and product development functions.

## Other expenses

The Group's other expenses mainly comprised of fair value loss on biological assets, loss on disposal of property, plant and equipment, net foreign exchange loss and voluntary charity donation. For the 2022 Interim Period, the Group's other expenses was HK\$18.4 million, representing an increase of HK\$16.1 million or 687.2% compared to HK\$2.3 million for the corresponding period in last year. The significant increase was mainly attributable to the net fair value loss on biological assets of HK\$14.1 million.

## **Finance costs**

For the 2022 Interim Period, the Group's finance costs amounted to HK\$14.0 million, representing an increase of HK\$0.5 million or 3.7% as compared to HK\$13.5 million for the corresponding period in last year. The increase was mainly due to the raise of market interest rate, which caused an increase in the Group's borrowing cost during the 2022 Interim Period.

## **Income tax expense**

During the 2022 Interim Period, the Group's income tax expenses decreased slightly from HK\$5.4 million in the corresponding period in last year to HK\$5.2 million for the 2022 Interim Period. The income tax expense was arose from the profitable subsidiaries. The slight decrease was mainly due to the decrease in taxable profit of certain subsidiaries of the Group during the 2022 Interim Period.

## **Loss for the period**

As a result of the foregoing, the Group recorded a net loss for the 2022 Interim Period of HK\$39.9 million as compared with the net profit of HK\$12.0 million during the corresponding period in last year. Such net loss is mainly attributable to the drop in both sales and gross profit of China CCMG segment and the net fair value loss on biological assets of the plantation segment.

## **CAPITAL EXPENDITURES**

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. During the 2022 Interim Period, the total capital expenditure was HK\$43.9 million (six months ended 30 June 2021: HK\$26.1 million). The capital expenditures during the 2022 Interim Period was mainly incurred for new production equipment for meeting the new national standards in the Nanning factory.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2022, the Group had net current liabilities of HK\$87.0 million (31 December 2021: net current liabilities of HK\$54.5 million), which included cash and cash equivalent of HK\$39.5 million (31 December 2021: HK\$59.7 million) and interest-bearing bank and other borrowings amounting to HK\$412.9 million (31 December 2021: HK\$499.7 million). As at 30 June 2022, the Group's unused bank facilities including overdraft amounted to HK\$151.8 million (31 December 2021: HK\$67.7 million).

## **TREASURY POLICY AND RISK MANAGEMENT**

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities. As at 30 June 2022, the Group's credit risk is primarily attributable to trade receivables, deposits, bank deposits with original maturity over three months and bank balances and cash. As at 30 June 2021 and 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

## **GEARING RATIO**

As at 30 June 2022, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank and other borrowings by total equity, was 1.2 (31 December 2021: 1.2). The gearing ratio remaining stable during the six months ended 30 June 2022 was mainly as a result of the decrease in interest-bearing bank and other borrowings which is offset by the decrease in the equity base of the Company after the reduction of retained profits being recognized.

## **EXCHANGE RISK**

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

## HUMAN RESOURCES

As at 30 June 2022, the Group had a total of 621 employees (31 December 2021: 675 employees). During the six months ended 30 June 2022, total staff costs excluding Directors' remuneration was HK\$43.3 million (six months ended 30 June 2021: HK\$51.5 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.

## PLEDGE OF ASSETS

The following assets were pledged as security for interest-bearing bank and other borrowings as at 31 December 2021 and 30 June 2022:

	Carrying value	
	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
Property, plant and equipment	177,235	158,870
Right-of-use assets	34,965	37,826
Financial assets at fair value through profit or loss	18,762	18,562
Inventories	—	42,858
Trade and bills receivables	16,962	54,775
Pledged bank deposits	17,028	25,383
Investment Property	6,275	6,560
	<u>271,227</u>	<u>344,834</u>

## CAPITAL COMMITMENT

The Group had the following capital commitment as at 31 December 2021 and 30 June 2022:

	<b>30 June 2022</b>	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and Buildings	<b>11,754</b>	28,542
Plant and machinery	<b>7,990</b>	1,369
	<b><u>19,744</u></b>	<b><u>29,911</u></b>

## MATERIAL ACQUISITIONS, DISPOSALS AND MATERIAL INVESTMENT

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures, and no material investment was held by the Group during the six months ended 30 June 2022.

## CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 30 June 2022.

## USE OF PROCEEDS FROM THE COMPANY’S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK\$288.4 million (the “**Net Proceeds**”). As at 30 June 2022, the Group had utilised approximately HK\$282.0 million of the Net Proceeds in accordance with the proposed applications set out in the Company’s listing prospectus, as follows:

Use	Total approximate amount of Net Proceeds (in HK\$ million)	Approximate percentage of Net Proceeds	Approximate amount utilised as at 30 June 2022 (in HK\$ million)	Approximate amount utilised during the 2022 Interim Period (in HK\$ million)	Approximate amount unutilised as at 30 June 2022 (in HK\$ million)	Expected timeline for intended use
To expand manufacturing facilities and enhance existing production lines	86.5	30%	86.5	—	—	—
To establish new Nong’s® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	72.1	—	—	—
To expand distribution network into new target cities in the PRC	57.7	20%	57.7	—	—	—
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	36.9	—	6.4	by December 2022
Additional working capital of the Group	28.8	10%	28.8	—	—	—
	<u>288.4</u>	<u>100%</u>	<u>282.0</u>	<u>—</u>	<u>6.4</u>	

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

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

## **SHARE OPTION SCHEME**

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

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

payable on acceptance of each grant of share options. The period within which payments or calls must or maybe made or loans for such purposes must be repaid for the amount payable on acceptance of the option under the rules of Share Option Scheme is 30 days after the relevant date of grant of the options.

As at 30 June 2022, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 39,489,294.

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

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

During the 2022 Interim Period, no options were granted by the Board. A total of 1,004,334 options were exercised, a total of 2,133,333 options were lapsed and a total of 1,746,666 options were cancelled during the 2022 Interim Period.



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

Grantees	Name of Director	Grant date	Exercise price	Vesting date	Number of					As at 30 June 2022
					As at 1 January 2022	options granted during the 2022 Interim Period	Exercised during the 2022 Interim Period	Cancelled during the 2022 Interim Period	Lapsed during the 2022 Interim Period	
Directors	Mr. Chan Yu Ling, Abraham	9 May 2019	HK\$2.3	10 May 2020	1,085,228	—	—	—	—	1,085,228
				10 May 2021	1,085,228	—	—	—	—	1,085,228
		24 Jul 2020	HK\$0.8	23 Jul 2021	1,740,000	—	—	—	—	1,740,000
				23 Jul 2022	1,740,000	—	—	—	—	1,740,000
	Ms. Man Yee Wai, Viola	9 May 2019	HK\$2.3	10 May 2020	354,275	—	—	—	—	354,275
				10 May 2021	354,275	—	—	—	—	354,275
		24 Jul 2020	HK\$0.8	23 Jul 2021	1,740,000	—	—	—	—	1,740,000
				23 Jul 2022	1,740,000	—	—	—	—	1,740,000
	Mr. Norimoto Hisayoshi	09 May 2019	HK\$2.3	10 May 2020	44,284	—	—	—	—	44,284
				10 May 2021	44,284	—	—	—	—	44,284
				10 May 2022	44,284	—	—	—	—	44,284
				10 May 2023	44,284	—	—	—	—	44,284
24 Jul 2020		HK\$0.8	23 Jul 2021	66,667	—	—	—	—	66,667	
			23 Jul 2022	66,667	—	—	—	—	66,667	
			23 Jul 2023	66,666	—	—	—	—	66,666	
Mr. Chan Kin Man, Eddie (retired on 28 May 2021)	9 May 2019	HK\$2.3	10 May 2020	1,085,228	—	—	—	—	1,085,228	
			10 May 2021	1,085,228	—	—	—	—	1,085,228	
	24 Jul 2020	HK\$0.8	23 Jul 2021	871,000	—	—	—	—	871,000	
			23 Jul 2022	871,000	—	—	—	—	871,000	

Grantees	Name of Director	Grant date	Exercise price	Vesting date	Number of					As at 30 June 2022
					As at 1 January 2022	options granted during the 2022 Interim Period	Exercised during the 2022 Interim Period	Cancelled during the 2022 Interim Period	Lapsed during the 2022 Interim Period	
	Dr. Tsoi Kam Biu, Alvin (retired on 28 May 2021)	9 May 2019	HK\$2.3	10 May 2020	354,275	—	—	—	—	354,275
				10 May 2021	354,275	—	—	—	—	354,275
		24 Jul 2020	HK\$0.8	23 Jul 2021	871,000	—	(871,000)	—	—	0
				23 Jul 2022	871,000	—	—	—	—	871,000
	Mr. Cheong Shin Keong (retired on 31 March 2022)	24 Jul 2020	HK\$0.8	23 Jul 2021	2,000,000	—	—	—	(2,000,000)	0
				23 Jul 2022	1,480,000	—	—	(1,480,000)	—	0
Sub-total for Directors					<u>20,059,150</u>	<u>—</u>	<u>(871,000)</u>	<u>(1,480,000)</u>	<u>(2,000,000)</u>	<u>15,708,150</u>
Employees		9 May 2019	HK\$2.3	10 May 2020	88,569	—	—	—	—	88,569
				10 May 2021	88,569	—	—	—	—	88,569
				10 May 2022	88,569	—	—	—	—	88,569
				10 May 2023	88,568	—	—	—	—	88,568
					<u>354,275</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>354,275</u>
		24 July 2020	HK\$0.8	23 July 2021	266,667	—	(133,334)	—	(133,333)	0
				23 July 2022	266,667	—	—	(133,333)	—	133,334
				23 July 2023	266,666	—	—	(133,333)	—	133,333
					<u>800,000</u>	<u>—</u>	<u>(133,334)</u>	<u>(266,666)</u>	<u>(133,333)</u>	<u>266,667</u>
Sub-total for Employees					<u>1,154,275</u>	<u>—</u>	<u>(133,334)</u>	<u>(266,666)</u>	<u>(133,333)</u>	<u>620,942</u>
Total					<u>21,213,425</u>	<u>—</u>	<u>(1,004,334)</u>	<u>(1,746,666)</u>	<u>(2,133,333)</u>	<u>16,329,092</u>

## 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 2022, save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

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

For the six months ended 30 June 2022, the Directors were not aware of any business or interest of the Directors, the controlling shareholders, and their respective close associates (as defined under the Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

A deed of non-competition dated 16 June 2015 was entered into by the controlling shareholders in favour of the Company (for itself and as trustee for its subsidiaries), details of which are set out in the section headed “Relationship with our Controlling Shareholders” of the prospectus of the Company dated 25 June 2015. The Directors are of the view that the controlling shareholders have been in compliance with the deed of non-competition during the 2022 Interim Period.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “**Audit Committee**”) on 12 June 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Code. The Audit Committee consists of three independent non-executive Directors, Mr. Ho Kwok Wah, George (being the chairman of the Audit Committee who has a professional qualification in accountancy), Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the Group’s policies and to perform other duties and responsibilities as assigned by our Board. The Audit Committee discussed the accounting principles and policies adopted by the Group together with the management and the external auditors. The interim report of the Group for the six months ended 30 June 2022 has also been reviewed and passed by the Audit Committee.

## **REVIEW OF THE INTERIM RESULTS BY AUDITOR**

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022 has been reviewed by the auditors of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 — “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## **THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, all Directors confirmed that, they have complied with the required standard of dealing as set out in the Model Code throughout the six months ended 30 June 2022.

## **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 2022.

## **PUBLICATION OF INTERIM REPORT**

The interim report of the Company for the six months ended 30 June 2022 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available for review on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.purapharm.com](http://www.purapharm.com) in due course.

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

Hong Kong, 28 August 2022

*As at the date of this announcement, the executive Directors of the Company are Mr. Chan Yu Ling, Abraham, Ms. Man Yee Wai, Viola and Dr. Norimoto Hisayoshi; and the independent non-executive Directors of the Company are Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee.*