



2023 ANNUAL REPORT 年度報告

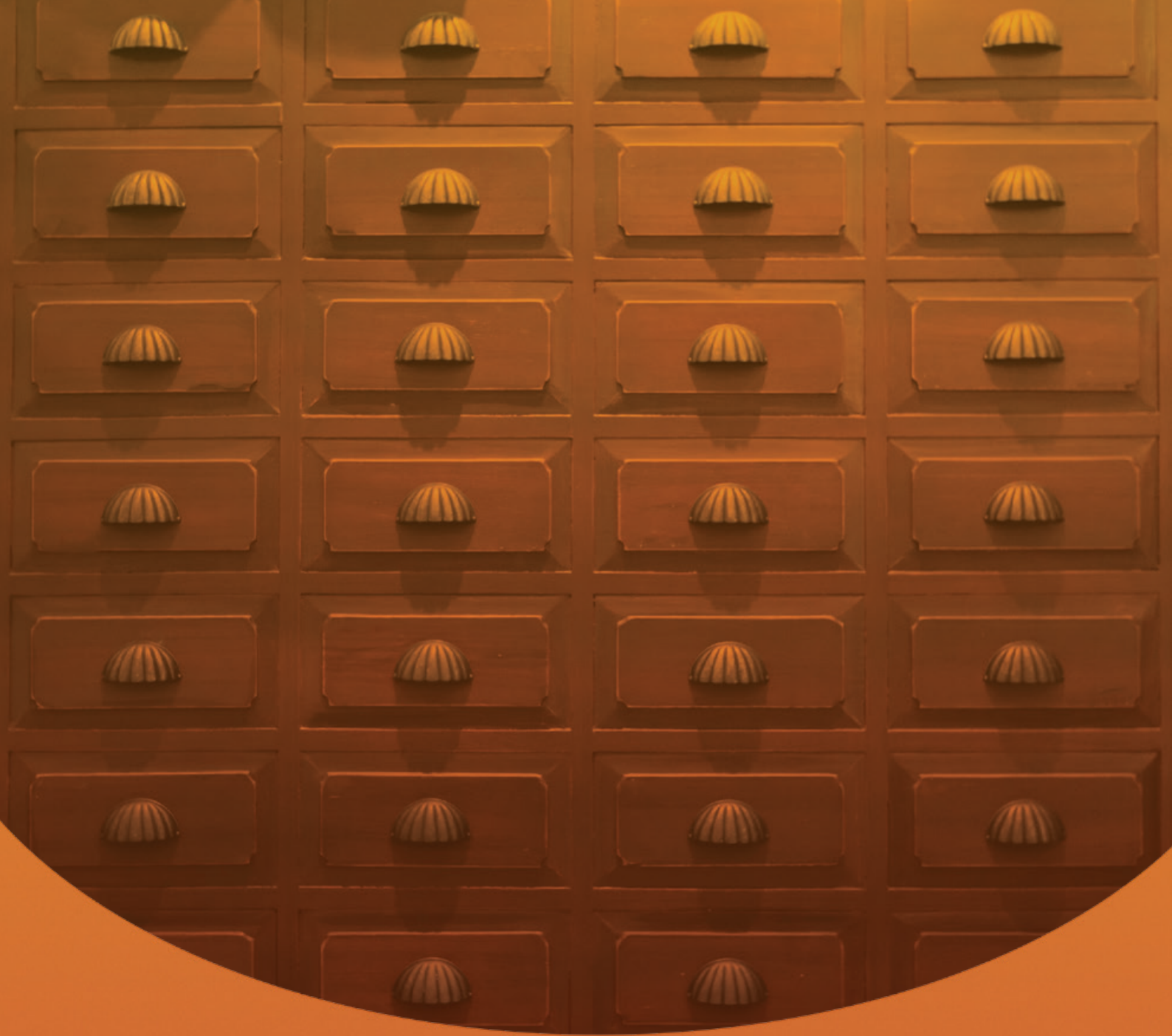
PuraPharm Corporation Limited
培力農本方有限公司

Stock code 股票代號: 1498

 [®]
PuraPharm

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Corporation Information

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Corporate Information

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EXECUTIVE DIRECTORS

Mr. Chan Yu Ling, Abraham (*Chairman*)
Ms. Man Yee Wai, Viola
Dr. Norimoto Hisayoshi (retired on 20 November 2023)

NON-EXECUTIVE DIRECTOR

Mr. Leung Stephen Kwok Keung
(appointed on 14 June 2023)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Kwok Wah, George
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee

AUDIT COMMITTEE

Mr. Ho Kwok Wah, George (*Chairman*)
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee

NOMINATION COMMITTEE

Mr. Chan Yu Ling, Abraham (*Chairman*)
Prof. Tsui Lap Chee
Mr. Ho Kwok Wah, George

REMUNERATION COMMITTEE

Dr. Leung Lim Kin, Simon (*Chairman*)
Prof. Tsui Lap Chee
Mr. Ho Kwok Wah, George

SCIENTIFIC ADVISORY COMMITTEE

Prof. Bruce Robinson (*Chairman*)
Prof. Rudolf Bauer
Prof. Piu Chan
Prof. Liang Song Ming
Prof. Chi Ming Che

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Dr. Norimoto Hisayoshi (*Chairman*)
Mr. Lam Wing Hung
Mr. Kwong Kar Fai
Ms. Zhou Jian

COMPANY SECRETARY

Ms. Chan Charmayne, ACG (*CS, CGP*),
HKACG (*CS, CGP*)

AUTHORIZED REPRESENTATIVES

Mr. Chan Yu Ling, Abraham
Ms. Chan Charmayne, ACG (*CS, CGP*),
HKACG (*CS, CGP*)

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

LEGAL ADVISORS

ONC Lawyers (As to Hong Kong law)
Appleby (As to Cayman Islands law)

REGISTERED OFFICE

P.O. Box 31119 Grand Pavilion
Hibiscus Way, 802 West Bay Road
Grand Cayman
KY1-1205, Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 201-207, 2/F,
Wireless Centre, Phase One,
Hong Kong Science Park,
Tai Po, New Territories, Hong Kong



HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East,
Wan Chai, Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

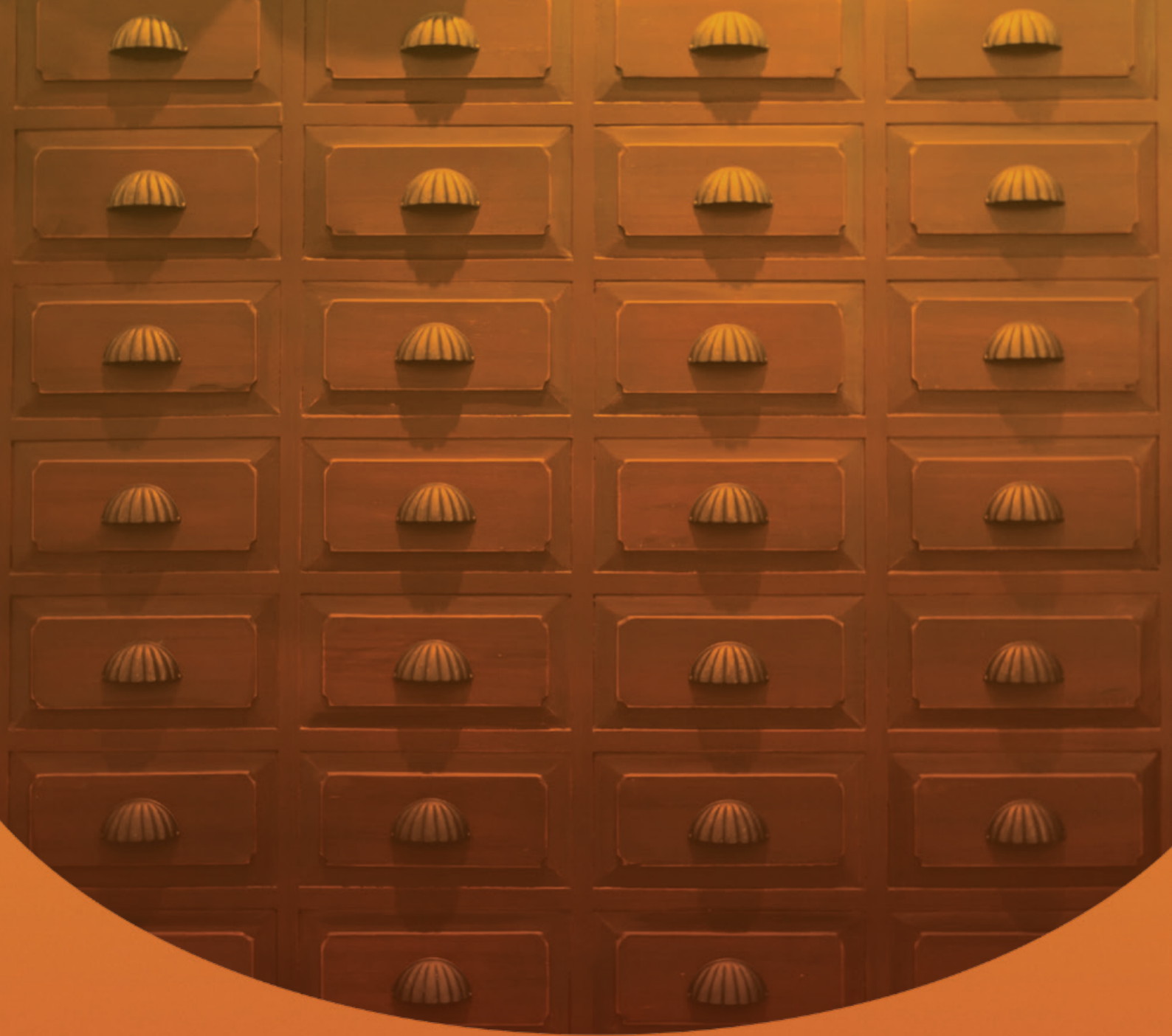
Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

SHARE INFORMATION

Date of listing: 8 July 2015
Place of incorporation: Cayman Islands
Place of listing: Main Board of The Stock Exchange
of Hong Kong Limited
Stock Code: 1498
Board lot: 500 shares
Financial year end: 31 December

COMPANY'S WEBSITE

www.purapharm.com



Directors, Board Committees and Senior Management

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現代科研

天然頂級
西洋參



NONG'S 農本方

源藥材系列





Directors, Board Committees and Senior Management

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BOARD OF DIRECTORS (THE “BOARD”)

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 63, is the founder, Chairman, Chief Executive Officer and Executive Director. He is responsible for the overall strategic planning and operations of the Group’s business. He also leads the Group’s research development and technological development functions. Mr. Chan has over 30 years of extensive experience in Chinese medicine and healthcare products. He is the vice chairman of the Chinese Medicine Granule Professional Committee of the China Association of Traditional Chinese Medicine, director of TCM All-Sector Hong Kong Centre, director of the Chinese Herbs Trade Cooperation Centre of “Hunan-Jiangxi-Guangdong-Hong Kong-Macao TCM All-Sector Coordinated Development Alliance”, a committee member of Chinese Medicine Hospital Project office – User Sub-groups (IT & Communications) and Government Chinese Medicines Testing Institute (GCMTI) Advisory Committee. In 2016, he was awarded Directors of The Year Awards 2016 by The Hong Kong Institute of Directors. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor’s Degree in Applied Sciences. He was accredited as a Chartered Engineer in the United Kingdom and was accredited as a Professional Engineer in Ontario, Canada. He is the spouse of Ms. Man Yee Wai, Viola, an Executive Director.

Ms. Man Yee Wai, Viola (文綺慧), aged 58, is an Executive Director and has been with the Group since its founding in 1998. She is responsible for corporate and brand strategies, and the overall strategic planning of the Group’s business. Ms. Man was the Key Account Manager and Group Product Manager of Nestle China Limited and the Consumer Marketing Manager of Coca-Cola China Ltd. and has over 20 years of experience in strategic planning, brand management, consumer and industrial marketing, key account management and new product development. Ms. Man was the Chairman (2012/13) of Tung Wah Group of Hospitals (“TWGHs”), one of the largest charitable organisations principally engaged in the provision of medical and health services, education and community services in Hong Kong and was a member of the Advisory Board of TWGHs (2013/14). Ms. Man was the Founding Chairman of the Board of Governors and College Council of Tung Wah College, and is the Council Chairman of Tung Wah College from 2010-2023. She is a co-opted member of Community Care Fund Task Force of the Commission on Poverty and a fellow of Hong Kong Institute of Directors. She is a member of the HK Constitution and Basic Law Promotion Steering Committee (2017-2023), an appointed member of the Board of Stewards of the Education University of Hong Kong (2015-2024), a member of the Council of the Education University of Hong Kong (2013-2019) and a member of the Betting and Lotteries Commission (2013-2019). Ms. Man was a member of the Advisory Committee of the School of Chinese Medicine of Hong Kong Baptist University (2010 to 2016), and a member of the Risk Communication Advisory Group of the Centre for Health Protection of the Health Department (2013 to 2016). Ms. Man is a member of the 11th and 12th Chinese People’s Political Consultative Conference of Sichuan Province. She was awarded the Bronze Bauhinia Star by the Chief Executive of Hong Kong SAR in 2013. Ms. Man obtained her Bachelor’s Degree in Science from The University of Western Ontario, Canada and her Master’s Degree in Business Administration from The University of Windsor in Canada. She is the spouse of Mr. Chan Yu Ling, Abraham, the Group’s Chairman, Chief Executive Officer and Executive Director.

Non-executive Director

Mr. LEUNG Stephen Kwok Keung, aged 68, has over 35 years of extensive experience in management, marketing and strategic planning. Mr. Leung started his distinguished career at Pfizer Hong Kong, the country office of Pfizer Inc. ("Pfizer") as a sales representative in 1983 and was transferred to Pfizer Australia as a Product Manager in 1986. In 1991, he was promoted to the Pfizer's New York Headquarters as an International Marketing Manager. In 1994, Mr. Leung was transferred back to Pfizer Australia as a Sales Manager and then Disease Management Manager before returning to Hong Kong as a Country Manager of Pfizer Hong Kong in 1997. Mr. Leung then retired from Pfizer in March 2022.

Under his leadership, Pfizer Hong Kong has won the prestigious HKMA Quality Gold Award, Outstanding Corporate Citizenship Gold Award and Best Companies to Work for in Asia.

Over the decades, Mr. Leung has been actively serving the Hong Kong community in various capacities including (i) the Chairman of the School of Pharmacy Advisory Board and member of Consultative Committee of the School of Nursing in The Chinese University of Hong Kong; (ii) member of the Incorporated Management Committee in The Hong Kong Management Association K S Lo College; (iii) council members of various associations including The Hong Kong Management Association (the "HKMA"), Hong Kong College of Health Service Executives ("HKCHSE"), College of Pharmacy Practice ("CPP") and the Common Purpose Hong Kong; and (iv) ex-member of each of the Advisory Council on Food and Environmental Hygiene, and Council on Human Reproductive Technology in Hong Kong.

Mr. Leung is also a Fellow of each of the HKMA, HKCHSE, CPP and The Australasian College of Health Service Management. Mr. Leung was honoured with the Asia Coaching Leadership Excellence Award in 2015, the Leader of the Year Award in 2016 and the Exemplary Leader Award in 2021, recognizing his visionary leadership and unremitting contribution to the industry.

Mr. Leung received a bachelor's degree in pharmacy from John Moore University in the United Kingdom and a master's degree in business (marketing) from The University of Manchester Institute of Science and Technology in the United Kingdom in 1979 and 1982 respectively. He is also a registered pharmacist in Hong Kong and the United Kingdom as well as a certified executive coach with the Worldwide Association of Business Coaches and the International Coaching Federation.

Independent Non-executive Directors

Mr. Ho Kwok Wah, George (何國華), aged 65, is an Independent Non-executive Director. Mr. Ho has over 20 years of extensive experience in accounting, auditing and financial management. He is a director of Yong Zheng CPA Limited, an accounting firm in Hong Kong, as well as the Director of Hong Kong Shatin Industries and Commerce Association Limited, and Hong Kong Commerce and Industry Associations Limited, respectively. Mr. Ho is also an independent non-executive director of Rykadan Capital Limited (stock code: 2288). He was awarded Medal of Honour (MH) by the government of Hong Kong SAR in 2015. Mr. Ho obtained a Bachelor's Degree in Accountancy from the Hong Kong Polytechnic University.

Dr. Leung Lim Kin, Simon (梁念堅), aged 69, is an Independent Non-executive Director. Dr. Leung has more than 30 years of extensive experience in both the information technology and telecommunications industries. Dr. Leung is currently a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business, University of Western Ontario, where he is primarily responsible for advising the school on its mission and strategy in Asia. He is also currently a member of the College Council of Tung Wah College, where he is primarily responsible for determining key governance issues. In 2005, he was appointed as the president of Motorola Asia-Pacific. Since 2008, Dr. Leung has been the Chief Executive Officer of Microsoft Greater China region. From 2009 to 2010, he was the Governor of the Upper Canada College. In 2012, Dr. Leung was appointed as Chief Executive Officer of Harrow International Management Services Limited. Since March 2015, Dr. Leung is appointed as the vice chairman and executive director of NetDragon Websoft Holdings Limited (stock code: 777) and the Chairman of its subsidiaries including Promethean World Limited, Edmodo, Inc., Cherrypicks and JumpStart Games, Inc., responsible for the overall strategic layout, direction of technical products and international business operation of all the education-related business of the company. Since May 2021, Dr. Leung has been appointed to be a non-executive director of Modern Times Group (Stock Code: 'MTG A' and 'MTG B'), a company listed on Nasdaq Stockholm. In addition, Dr. Leung is also the Chairman of Mynd.ai Inc. since Dec 2023 (Stock Code: MYND), a company listed on NYSE American. From 2010 to 2015, Dr. Leung was a member of the International Advisory Committee of The Hong Kong Polytechnic University. Dr. Leung received his bachelor's degree in arts from the University of Western Ontario in Canada, an honorary doctorate in laws from the University of Western Ontario in Canada and a doctorate degree of business administration from the Hong Kong Polytechnic University.

Prof. Tsui Lap Chee (徐立之), aged 73, is an Independent Non-executive Director. He is University Professor Emeritus at University of Toronto, Ontario, Canada. He is also an Independent Non-Executive Director of Hang Lung Group Limited (stock code: 0010). Prior to joining the Purapharm Group, he was the Vice Chancellor of the University of Hong Kong. Prof. Tsui has over 40 years of experience in human genetic disease and genomics research, reflected in his over 300 peer-reviewed scientific publications and 65 invited book chapters. He was the recipient of many national and international prizes, as well as 16 honorary doctoral degrees from universities around the world. He was appointed as the Justice of the Peace in 2006 and awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the Chief Executive of Hong Kong SAR in 2011 and 2016, respectively. He received a Doctor of Philosophy Degree from University of Pittsburgh in the U.S.A.

SCIENTIFIC ADVISORY

Prof. Bruce Robinson, is an Endocrinologist. He was Chair of the Australian Government's Taskforce of expert clinicians charged with reviewing the Medicare Benefits Schedule and in 2015-2021 was appointed as Chair of Australia's peak body advisory and funding body for medical research, National Health and Research Council. Professor Robinson's research has focused on identifying genetic changes which either predispose or directly cause endocrine tumours. Other highlights include the formation of an international consortium of families from around the world to study medullary thyroid carcinoma and pheochromocytoma. He has been Head of Cancer Genetics Unit at the Kolling Institute of Medical Research, Royal North Shore Hospital, since 1989. He continues to practice at Sydney's Royal North Shore Hospital. Professor Robinson was Dean of the Medical School from 2007 until 2016. Since 2001, he has been Chairman of Hoc Mai Foundation, a major program in medical and health education with Vietnam. Professor Robinson is on boards of publicly listed companies Mayne Pharma and Cochlear. Professor Robinson has supervised 37 PhD students and has more than 300 research publications.

Prof. Dr. DDr. h.c. Rudolf Bauer, is Full Professor and the Head of the Department of Pharmacognosy of the Institute of Pharmaceutical Sciences, University of Graz, Austria. Prof. Bauer is the chairman of two expert groups on herbal drugs of the European Pharmacopoeia Commission. He has been active in the development methods for quality control of Chinese herbs for more than 30 years. He has published 400 original publications, reviews and book chapters.

Prof. Piu Chan (陳彪), is the Professor of Neurology and Geriatrics, and Director of National Clinical Research Center for Geriatric Disorders, Xuanwu Hospital of Capital Medical University, Beijing, the PRC. Currently, he is also the Director of the Parkinson's Disease Research Institute of the Beijing Institute of Brain Major Diseases, Director of the Beijing Key Laboratory for Parkinson's Disease Research, and Deputy Director of the Beijing Center for Drug Research and Development and Engineering of Neurological Diseases. Prof. Chan is well known for his translational research on neurodegenerative disorders and other age-related disorders. He has been engaged in basic and clinical research of Parkinson's disease, and has carried out systematic and innovative research mainly in the aspects of biomarkers related to Parkinson's disease, early warning diagnosis and intervention, digital medical treatment of Parkinson's disease and whole-cycle management of disease. He participated in the development of international clinical diagnostic criteria for Parkinson's disease and the diagnostic criteria for clinical research of prodromal Parkinson's disease.

Prof. Liang Song Ming (梁頌名), is currently the Honorary Visiting Professor of the Integrative Medical Centre of Faculty of Medicine, the Chinese University of Hong Kong. Prof. Liang has significant academic achievements in Chinese Medicine and has published over 20 theses and ten books. The research project "Pharmacological Study of Wu Zi Yan Zong Wan" that Prof. Liang hosted was awarded the Second Class, Science and Technology Prize for Progress in Traditional Chinese Medicine, Guangdong Province. Prof. Liang's scope of research includes the study on chemical ingredients and pharmacology, as well as clinical practice and research on common diseases and polyphathia such as high blood pressure, hyperlipidemia and digestive diseases. Additionally, "Formulation Science of Chinese Medicine" by Prof. Liang as the chief editor received Second Prize at the Science Conference of Ministry of Health of China.

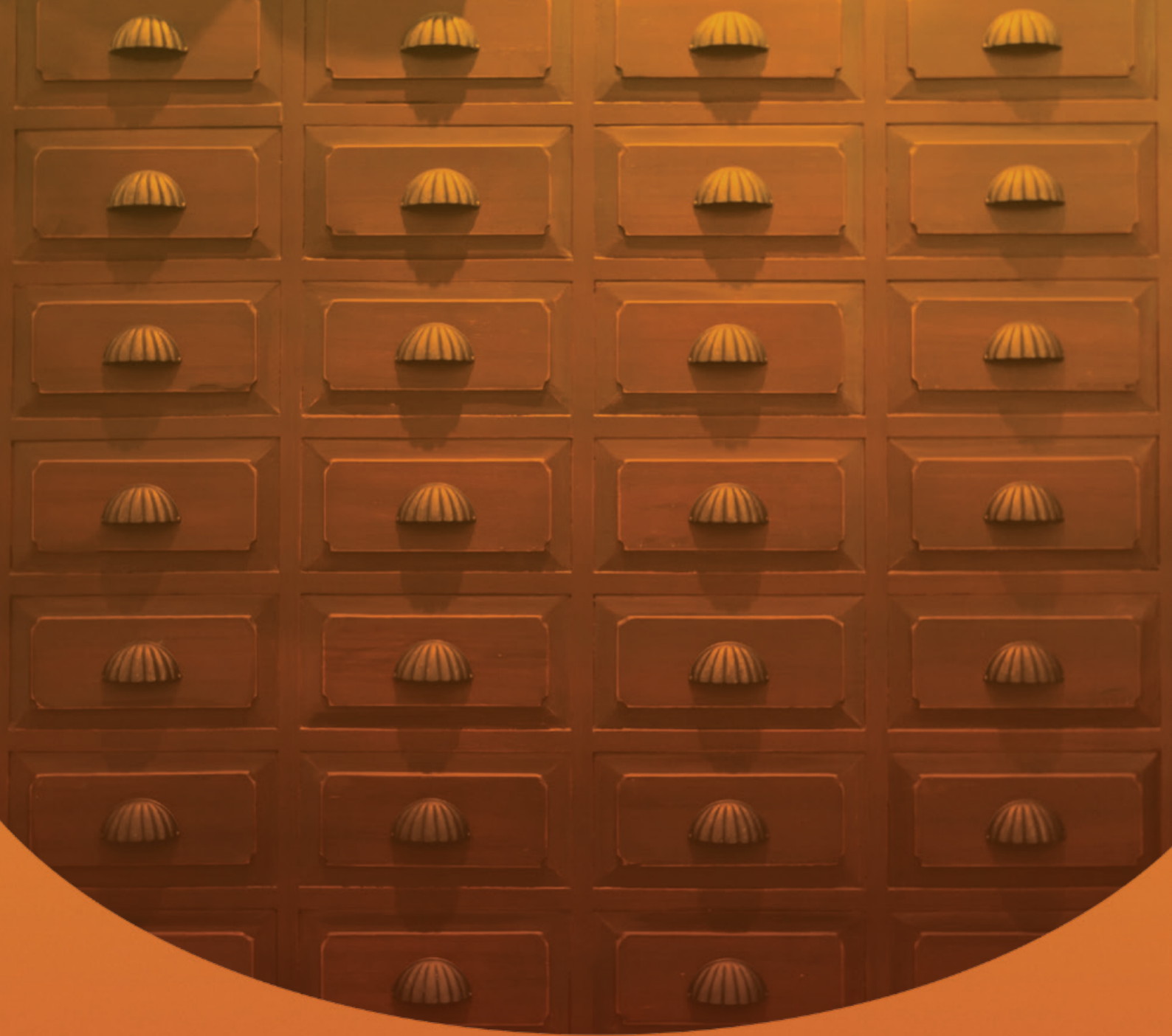
Prof. Chi Ming Che (支志明) is the Zhou Guangzhao Professor in Natural Sciences and the head of HKU Chemistry. He is the Director of State Key Laboratory of Synthetic Chemistry; HKU-CAS Joint Laboratory on New Materials; Laboratory for Synthetic Chemistry and Chemical Biology Limited of Health@InnoHK. Prof. Che is also the founding Vice-President of The Academy of Sciences of Hong Kong (2015-2022); an Academician of Chinese Academy of Sciences (elected in 1995); an International Member (Foreign Associate) of National Academy of Sciences USA (elected in 2013); a Fellow of The World Academy of Sciences (elected in 2007); and a Founding Member of The Academy of Sciences of Hong Kong (elected in 2015).

Senior Management

Mr. Lam Wing Hung (林詠鴻), aged 35, is the chief financial officer of the Company. He is responsible for the Group's overall financial reporting, operation management, corporate finance and investment activities. Mr. Lam joined the Group in January 2024 as chief financial officer. Mr. Lam is a fellow member of The Hong Kong Institute of Certified Public Accountants, a member of both The Association of Chartered Certified Accountants and CPA Australia. He is also a fellow member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute. Apart, he is the Certified Anti-Money Laundering Specialist of ACAMS. Mr. Lam had previously worked in certain international accounting firms and companies listed on the Main Board of the Stock Exchange. Mr. Lam has extensive experience in auditing, accounting, tax planning, treasury, investment and corporate secretaryship.

Ms. Ho Yuk Chun (何玉珍), aged 56, is the General Manager of Nong's® Sales and Marketing. She is responsible for the sales and marketing of Nong's® CCMG products in the Hong Kong market. Ms. Ho joined the Group in January 2005 as Manager, Ethical division. Prior to joining the Group, in 2002, Ms. Ho was an Assistant Customer Service Manager of Watsons Water, a manufacturer of pure distilled water, where she was primarily responsible for customer services for Watson's water. In 2003, Ms. Ho was an Assistant Business Information Manager and she was responsible for IT project co-ordination and sales administration. She received a Bachelor's Degree in Business from Monash University in Australia in 2002.

Mr. Shi Gang (石鋼), aged 68, is the Vice President of Greater China. Mr. Shi joined our Group as the Chief representative of the Beijing representative office and Vice President of the Greater China region in October 2004. He is mainly responsible for liaising with government departments in the PRC with respect to our Group's operation, liaising with the China Food and Drug Administration at the provincial level, obtaining sales approval and monitoring the relevant policies and regulations in the PRC. Prior to joining our Group, Mr. Shi was appointed as the Chief representative of Ryoden (Holdings) Limited (菱電(集團)有限公司) in 1992, a company principally engaged in the elevator business, where he was primarily responsible for human resources and operational management of the Beijing representative office, as well as liaising with government departments and leaders in Beijing on behalf of the board of directors of Ryoden (Holdings) Limited (菱電(集團)有限公司). Mr. Shi was accredited as an electrical engineer in the PRC by The Ministry of Science and Technology of the PRC (中華人民共和國國家科學技術委員會) in November 1994. Mr. Shi received his Bachelor's Degree in journalism from Beijing Renwen University (北京人文大學) (formerly known as Beijing Renwen Hanshou University (北京人文函授大學)) in May 1987. He completed the Beijing Foreign Investment Enterprise senior management training course (北京市外商投資企業中方高級管理人員培訓班) and the Beijing Foreign Investment Enterprise personnel management training course (北京外商投資企業人事管理培訓) organised by the Beijing Personnel Bureau (北京市人事局) in December 1994 and November 1994, respectively.



Corporate Milestone

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2029
200g

中藥配方顆粒

羌活湯

NONG'S
農本方

2032
200g

中藥配方顆粒

生脈散

NONG'S
農本方

2034
200g

中藥配方顆粒

小建中湯

2002
200g

中藥配方顆粒

黃丸

NONG'S
農本方

2003
200g

中藥配方顆粒

四物湯

1346
200g

中藥配方顆粒

Herba Ecliptae

旱蓮

Corporate Milestones

PuraPharm Corporation Limited
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The following is a summary of key business development milestones of PuraPharm Corporation Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” or “PuraPharm”):

1998

- The Group was founded by Mr. Chan Yu Ling, Abraham.

2002

- In recognition of the Group’s research and development expertise, the Group was selected by the National Administration of Traditional Chinese Medicine to undertake the Concentrated Chinese Medicine Granules (the “CCMG”) combination formulation research project to review and advise on the use of CCMG combo formulae products in China.

2004

- The Group was selected as one of the six pilot manufacturers and also the only non-PRC company that is licensed by the China Food and Drug Administration (the “CFDA”) to manufacture and sell CCMG products in China.
- The Group became a CCMG product supplier of the majority of Hong Kong hospitals and healthcare institutions with Traditional Chinese Medicine (the “TCM”).
- The Group began to sell its CCMG products to mobile clinics operated by non-profit organisation customers.



2009

- The Group’s testing laboratory was certified by the China National Accreditation Service for Conformity Assessment (the “CNAS”), an international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards.
- The Group’s ONCO-Z coriolus versicolor extract, the sole ingredient of one of the Group’s Chinese healthcare products, Oncozac® (安固生®), was verified by the United States Pharmacopoeia (the “USP”) as dietary ingredient and became the world’s first TCM ingredient verified by the USP. The USP medicine standards are widely recognised as one of the most strict quality control standards for assessment of the identity, strength, quality, and purity of medicines.

2010

- The Group obtained Good Manufacturing Practice (the “GMP”) certifications from the Australia Therapeutic Goods Administration (the “TGA”), which is widely regarded as the most stringent certification standard in the world.



2011

- The Group was recognised as “Top Five Companies of Proprietary Chinese Medicine Exports 2011”.

2014

- The Group’s Radix Astragali (黄芪) Formula Granules was verified by the USP Dietary Ingredient Verification Program.
- Nong’s® (農本方®) was awarded “Hong Kong Top Brand Awards” issued by the Hong Kong Brand Development Council.



2015

- The shares of the Company (the “Shares”) were listed on the Main Board of the Stock Exchange on 8 July 2015 (the “Listing Date”).
- The 30th Nong’s® (農本方®) clinic was opened in Hong Kong.

2016

- The Group operated the first Nong’s® (農本方®) clinic in Canada.
- The Group signed a cooperation agreement with the Chinese University of Hong Kong (“CUHK”) and Hong Kong Baptist University (“HKBU”) on the first new drug with integrative research successfully obtaining clinical trial for drug approval by CFDA.
- The Group commenced operations of the first private integrated Chinese and western medical centre for mammary gland disease in Hong Kong which was also the 50th Nong’s clinic.
- Nong’s clinic became the largest Chinese medicine clinic chain in Hong Kong.



2017

- In March, the Group acquired K’an Herb Company, Inc. (“KAN”), a company located in California, USA, and principally engaged in the manufacturing of Chinese herbal formulas in the U.S. and sales to distributors and healthcare practitioners in the U.S. and Europe.
- In April, PuraPharm acquired the entire equity interest of two companies in Guizhou province, China, namely Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. and Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd.
- In August, PuraPharm acquired SODX Co., Ltd. (“SODX”), a Japan-based company that engages in the manufacturing and sales of health food in Japan. Upon the acquisition SODX’s factory will serve as a pilot factory to transfer the latest technological know-how from Japan to further improve PuraPharm’s products’ quality and production efficiency, and to act as the Group’s new product development centre for business expansion.

2018

- The Group moved forward into 2nd phase of clinical trial process on Ren Shu Chang Le Granules (仁朮腸樂顆粒) for the treatment of irritable bowel syndrome (治療腸易激綜合症).
- Nong's® (農本方®) was awarded "Hong Kong Pharmacy's Top 20 Most Popular Brand Award" issued by H.K. General Chamber Of Pharmacy.

2019

- PuraPharm was awarded the highest honour of "Invotech Firestarters Platinum Award 2019" by Invotech, set up by the Business and Professionals Federation of Hong Kong, for the Group's achievements in promoting innovation and entrepreneurship in Chinese Medicine.
- PuraPharm's Business & Innovation Centre, a newly established unit commissioned to nurture innovation within the Group, to initiate new products and business, and to steer and drive projects to product launch in the market place was installed.
- Nong's® introduced a new look, and a more convenient and consumer-friendly packaging design, to its range of Nong's OTC Formula products.
- Nong's® launched a new range of ten OTC Chinese Medicine Capsules products, targeted for consumers' general relief, overall health and wellbeing.

2020

- In February 2020, through the contingency application procedure, Guangxi Zhuang Autonomous Region Food and Drug Administration ("GXFDA") of the PRC has approved and authorised PuraPharm Nanning to manufacture Qing Fei Pai Du Tang (清肺排毒湯) and Kang Fu Yi Hao Fang (康復1號方) granules, used for the treatment of patient who contacted COVID-19 pandemic.



- The Group has completed the Rights Issue of HK\$98 million net proceeds in March 2020, which further strengthened the capital base and the financial position of the Group.



- The Group launched an immunity boosting product, Immuzac+™, an enhanced version of Immuzac® fortified with vitamin C and manufacturing in Japan.
- The Group launched the Nong's cinematic brand TVC in March 2020.



- The Group has revamped a new research and development centre in Nanning, to enhance the Group’s research and development capability for innovative products development, and preparation for the upcoming national CCMG standardization in China.
- The Group has completed phase one of new production facility in Nanning, which composed of 3 modernised warehouse buildings with total gross floor area of 25,079 square metres in aggregate, as a central hub for supply chain.

2021

- In July 2021, the Group’s full range of Nong’s® Chinese medicine clinics launched the 3rd generation cloud-based Chinese Medicine Clinic Management system, the Traditional Chinese Medicine Advisor (TCMA 3.0) offering instant database synchronization and real time patients’ information accessibility, resulting in more timely, more convenient and more accessible Chinese medicine diagnosis and treatment services. The cloud-based consultation and management system is interfaced with a consultation analytics platform enabling evidence-based research and big data analytics of Chinese medicine consultation and prescription cases, providing a brand new experience to traditional Chinese medicine practitioners and users.



- In August 2021, the Company changed the dual foreign name in Chinese from “培力控股有限公司” to “培力農本方有限公司”.



- In December 2021, the Group was awarded the InnoESG Prize Series – ESG Care Prize 2021 by the Society Next Foundation, recognizing the Group’s contribution to creating a more sustainable society and a more eco-friendly environment.



2022

- The Group set up a brand new flagship store in Central, the largest “NONG’s Central Affiliated Clinics Grade Acupuncture Center (農本方中環特約診所級針灸中心)” in Hong Kong, to provide modern Chinese medicine consultation services to meet the needs of the public.



- To support the development of the Greater Bay Area, the Group opened chain stores under franchise in the Greater Bay Area to explore new opportunities in cross-border e-commerce in the Greater Bay Area.



- In line with the concept of “homology of medicine and food”, the Group has been actively developing innovative healthcare products, applying the theory of “four natures” and “five flavours” in Chinese medicine to food, and “Nong’s® (農本方®)” has launched the new “indigenous herbs” through modern research.



2023

- PuraPharm® Nong's® approaches its 25th Anniversary in 2023, and sponsored the TV Chinese medicine drama "Let Me Take Your Pulse". The drama was a 25-episode series over a 6-week period broadcasted on Television Broadcasts Limited (TVB) from 11 September 2023 to 13 October 2023. The Best TV Actress Award winner and a popular and upcoming actor who won the Most Improved TV Male Artist were the leading actress and actor of the drama. The TV series followed the lives of a group of young Chinese Medicine Practitioners (CMP's) and their life journey in healing themselves and others. The drama brought out positive and educational messages about Chinese medicine.



Nong's® hopes to increase the awareness of the category of Concentrated Chinese Medicine Granules (CCMG) among the public and correct any misconceptions or misbeliefs about CCMG, its production, quality, usage and efficacy among the audience. The drama has attracted very positive impact and feedback among our customers, mostly Chinese medicine practitioners (CMP's), as well as the general public. The improved professional and scientific image of Nong's® has also led to an increased confidence in Nong's® among patients, as well as a gradual behavioural change among patients who used to visit only western doctors before but are now more receptive to visiting CMP's when they feel sick or at the onset of some simple medical symptoms.

- The Group launched a new range of Nong's® Instant Herbal Drinks (Self-Heal Plant, Monk Fruit and Wolfberry) with a new TV Commercial in September 2023. The instant herbal drinks range targets to the younger audience and was distributed in key drug store chains and convenience stores. Product demonstrations were being arranged in Japanese supermarkets and high end supermarkets.



- Oncozac® launched a TV Commercial “Living with Cancer” and featured 8 real life touching stories of cancer patients, hoping to give hope and positivity to those who are going through their journey battling against cancer. The TV Commercial won the Finalist Award at the Cannes Film Festival 2023, under the Corporate Media & TV Awards Section. The TV Commercial increased awareness for the Oncozac® brand and helped to recruit new customers for Oncozac®. PuraPharm’s® Yunzhi supplement containing the United States Pharmacopeia (USP)-verified ingredient Onco-Z.



- The Group set up 2 new clinics in Greater Bay Area and Nanning, to provide modern Chinese medicine consultation services in PRC.



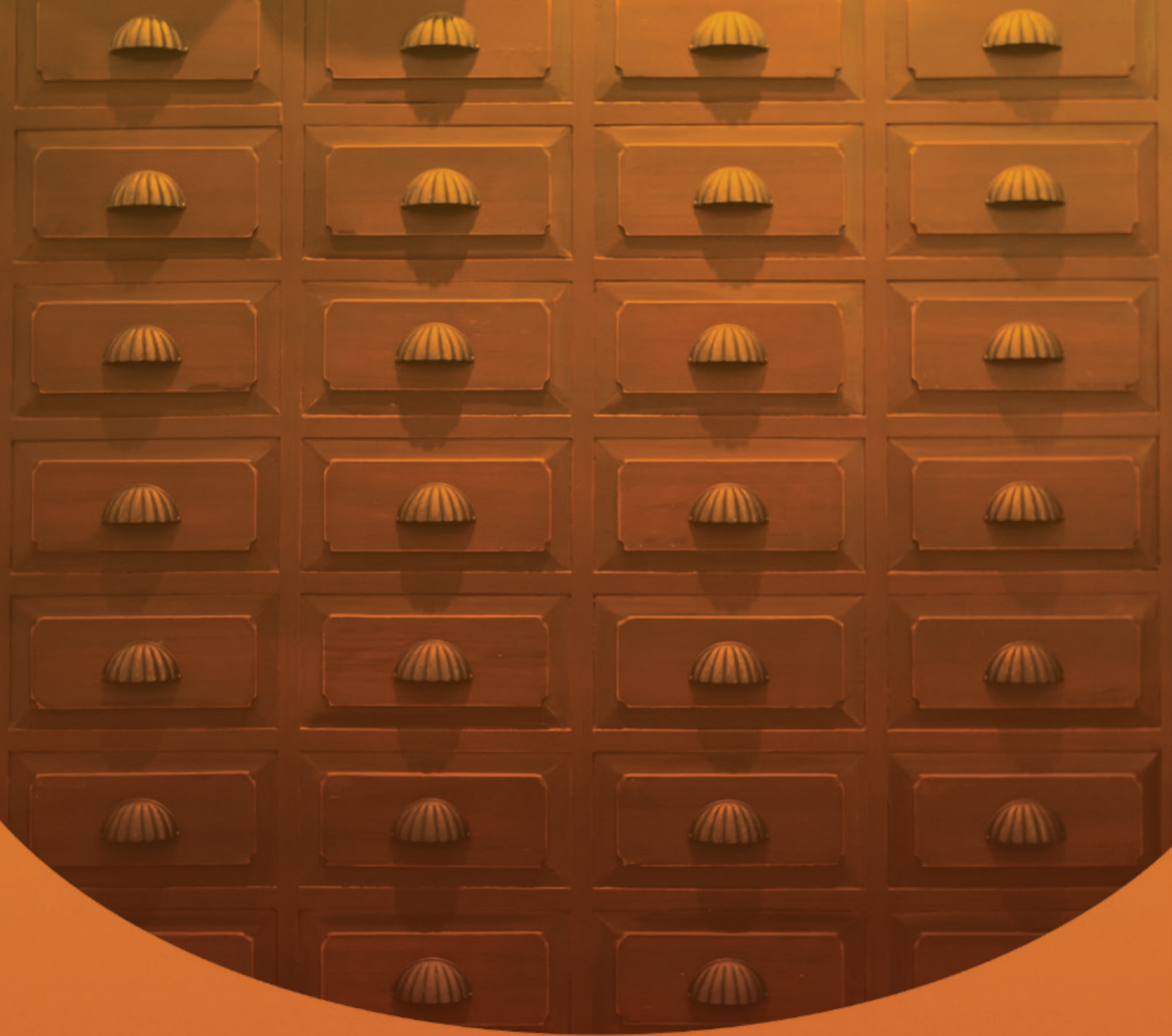
現代科研

天然頂級
杜仲

NONG'S 農本方

源藥材系列





Chairman's Statement

PuraPharm Corporation Limited
– 2023 Annual Report



Chairman's Statement

PuraPharm Corporation Limited
– 2023 Annual Report

DEAR SHAREHOLDERS,

In the financial year ended 31 December 2023, the Group achieved total revenue of approximately HK\$406.9 million, representing a decrease of approximately HK\$41.2 million, or 9.2%, compared with HK\$448.1 million in the previous financial year. At the same time, we suffered a net loss of HK\$106.1 million, which represented a decrease of 11.7% from HK\$120.2 million in the previous financial year. The losses were mainly attributed to the decrease in sales of Concentrated Chinese Medicine Granules (CCMG) in China.



The reason for the decline in sales is that the Group was selling more than 500 kinds of Chinese medicine granules based on our internal proprietary standards, but with the implementation of national standards, these internal proprietary standards are no longer applicable. Since April 29, 2021, when the Chinese Pharmacopoeia Commission approved the release of the first batch of national standards for 160 kinds of Chinese medicine granules. Up to 15 August 2023, the fifth batch of national standards was released with, the number of national standard varieties totalling only 265, which is far less than the required 500 varieties normally required by the hospitals. Due to the shortage of varieties, doctors' prescriptions have been greatly restricted, and hospitals inevitably have to switch back to traditional herbal decoctions, which has affected the normal use of CCMG granules, and our Group's sales in mainland China have also been severely affected.

However, as the Chinese Pharmacopoeia Commission continues to release new national standard varieties, we expect the number of varieties to gradually recover to more than 450 in the next two years. Therefore, we remain optimistic about the future prospects of Chinese medicine granules in the Chinese market, and we are also actively preparing to increase our market share.

In Hong Kong, our CCMG business continued to grow strongly last year, with double-digit growth in our clinic business. In addition, our collaboration with Television Broadcasts Limited in the TV Chinese medicine drama "Let Me Take Your Pulse" was very popular, which raised the public's awareness and acceptance of traditional Chinese medicine and CCMGs, which played a positive role in the promotion of our products in the Hong Kong market.

In terms of research, development and production of Chinese medicines, the Group will continue to strengthen the research and development of high-quality CCMG products, launch more innovative health care products featuring natural Chinese medicine ingredients, enrich the product line and improve product quality. In addition, the Group actively collaborates with world-class research institutions to absorb the research results of basic science and molecular biology of Chinese herbal medicine. This is to ensure that the Group is always ahead of its competitors in terms of TCM modernization and innovation.

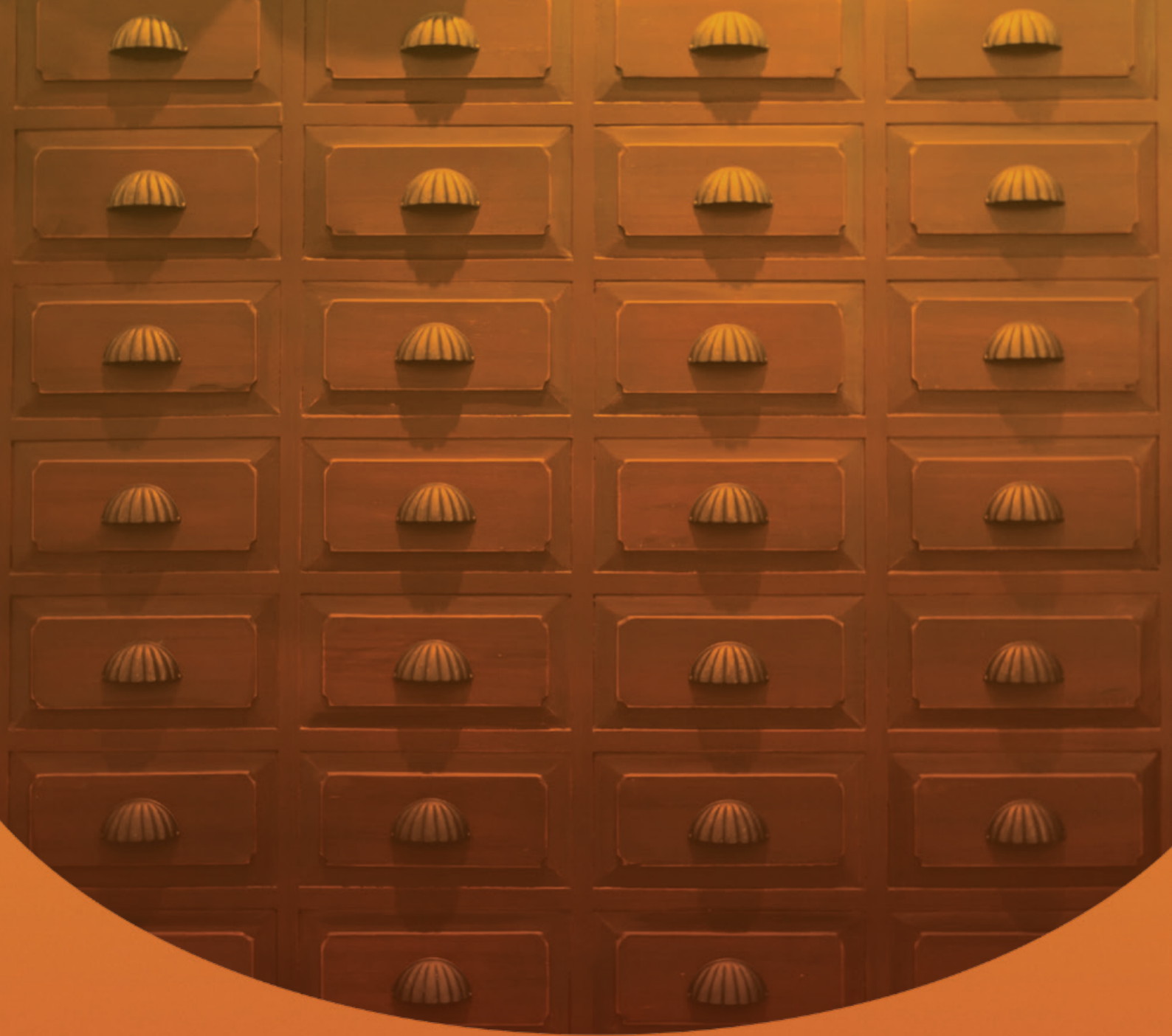
In the future, we will actively respond to the national policy of accelerating the integration of Hong Kong and Macau into the Greater Bay Area and accelerate the integration of our business. Our business directions will include:

1. to continue to grow the existing CCMG business;
2. to draw on the model of our Nong's® clinics in Hong Kong to develop our clinic chain business in the Greater Bay Area. Our first clinic was opened in Futian District, Shenzhen, and it is expected that this will become an important strategic development direction for us in China in the coming years;
3. preparations are underway for the opening of an Internet hospital; and
4. to accelerate the promotion of the sales of food and health products based on the concept of "food and medicine come from the same source".

The Group believes that the CCMG granule industry will recover. With our R&D capabilities, product line, operational strategies, and sales network, we are committed to launching high-quality products that meet market needs to drive performance growth and create shareholder value.

Finally, I would like to thank all shareholders for their continued support and trust. We look forward to achieving more in the new year and delivering an attractive return on investment.

Chan Yu Ling, Abraham
Chairman
Hong Kong, 28 March 2024



Corporate Profile

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Corporate Profile

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The Group is a leading Hong Kong-based Chinese medicine company primarily engaged in the research and development, production, marketing and sale of CCMG products marketed under its brand “Nong’s® (農本方®)”. The Group is one of the only five, and the only non-PRC company that is licensed by the CFDA to manufacture and sell CCMG products in China. Further, the Group is qualified to issue safety reports recognised by more than 70 countries around the world through its in-house CNAS ISO 17025 laboratory. The Group has been supplying CCMG to the majority of Hong Kong hospitals and healthcare institutions with TCM clinics since 2004. The Group is the leading and the largest supplier of CCMG products in Hong Kong and also a leading Chinese medicine clinic chain in Hong Kong.

Since its establishment in 1998, the Group has dedicated itself to the modernisation and internationalisation of TCM. Actively collaborating with internationally renowned academic and research institutions, the Group has established itself as the technological front-runner within the industry. Through continuous innovation, the Group has come to be regarded as a leading company in the research and development, manufacturing, marketing and selling, quality control and basic science research of TCM.

The Group has invested in TCM research and production facilities in Nanning, Guangxi, China. The factory complies with the PRC GMP standards, the Australia’s TGA standards, one of the strictest certification standards in the world, as well as the international PIC/S GMP standards. The Group is also the only Chinese medicine manufacturer to have CCMG products verified and recognized by the United States Pharmacopeia (USP). The Group’s laboratory is certified by the CNAS, the international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards. The Group’s manufacturing facilities are regarded as one of the most advanced TCM research and manufacturing facilities in Asia.

With innovative insights and advanced technologies, the Group has also developed a series of over-the-counter health products, among which, brands such as PuraGold® (金靈芝®), Oncozac® (安固生®), Immuzac® (益抗適®) and Haveron® (烏髮濃®) enjoy great popularity both in Hong Kong and overseas.

CORPORATE STRENGTHS

- The Group is the market leader in the CCMG market in Hong Kong where its products are widely recognised for their premium product quality, reliability and safety.



- The Group offers an extensive range of modernised CCMG products including single formulae and combo formulae products, and a proprietary, patented and automated clinic and hospital management and dispensing system to provide a total Chinese medicine solution for its customers and end users.



- The Group's modernised manufacturing facilities, coupled with its strong capabilities in medical product safety testing and stringent quality control during the manufacturing process, have enabled it to ensure premium product quality and safety.



- The Group is a pioneering research and development company dedicated to the modernisation and internationalisation of Chinese medicine and its proven track record in the development of new TCM products, in particular CCMG combo formulae products, differentiates it from its competitors.
- Aiming to enhance the Group's research and development capability, the Group has revamped a new research and development centre, with total gross floor area of 1,632 square metres, in Nanning, for innovative products development, and preparation for the upcoming national CCMG standardization in China.



STATE-OF-THE-ART PRODUCTION FACILITIES

One of the Finest TCM Facilities in Asia

The Group owns and operates its Chinese medicine manufacturing facilities in Hi-tech Development Zone, Nanning, Guangxi Zhuang Autonomous Region, which occupies a land parcel of approximately 17,241 sq.m. with a total gross floor area of approximately 7,760 sq.m. The Group has designed its own manufacturing facilities and adopted advanced technologies and testing techniques in Chinese medicine production. The production plant incorporates the efforts of leading architects, engineers and pharmaceutical plant design specialists from Canada, Australia and Japan, and meets the GMP standards of China, the Australia's TGA standards, the international PIC/S, the USP, as well as the Group's internal standard operating procedures. It is recognised as one of the most sophisticated, well-managed Chinese medicine research and manufacturing plants in Asia.

The Group's manufacturing facilities are highly automated and controlled by a centralised computer system. The Group's production equipment includes, among others, high-efficiency dynamic fluid extractors, low temperature concentrators, large spray dryers, as well as equipment for freeze drying, vacuum drying and fluid bed drying of Chinese herbal extracts. The Group operates a clean room for its granule production which meets the relevant GMP standards.

New Smart Factory in Nanning

The Group is developing a new smart factory located in Hi-tech Development Zone, Nanning, Guangxi Zhuang Autonomous Region, which occupies a land parcel of approximately 49,185 sq.m. with a total gross floor area of approximately 65,967.66 sq.m. This smart factory will represent a leap forward from more traditional automation to a fully connected and flexible system, the one that can use a constant stream of data from connected operations and production systems to learn and adapt to future demands. Phase one comprising of 3 modernised warehouse buildings (total gross floor area: 25,079 sq.m.) has been completed in late 2020 which will act as a central hub for product supply.



Pilot Factory in Japan

The Group's Japanese subsidiary, SODX, owns a pilot factory, certified with Health Food GMP, which is located in Osaka, Japan with total gross floor area of approximately 1,460 sq.m. The factory is equipped with high technology production machine which enables SODX to produce health food in different packaging and dosage form like granule, tablet, capsule etc. to fulfill the specification of customer's need. The pilot factory will also act as the Group's new product development for further business expansion. The best selling products of SODX include anti-oxidants, fermented health food as well as health food developed from propolis.

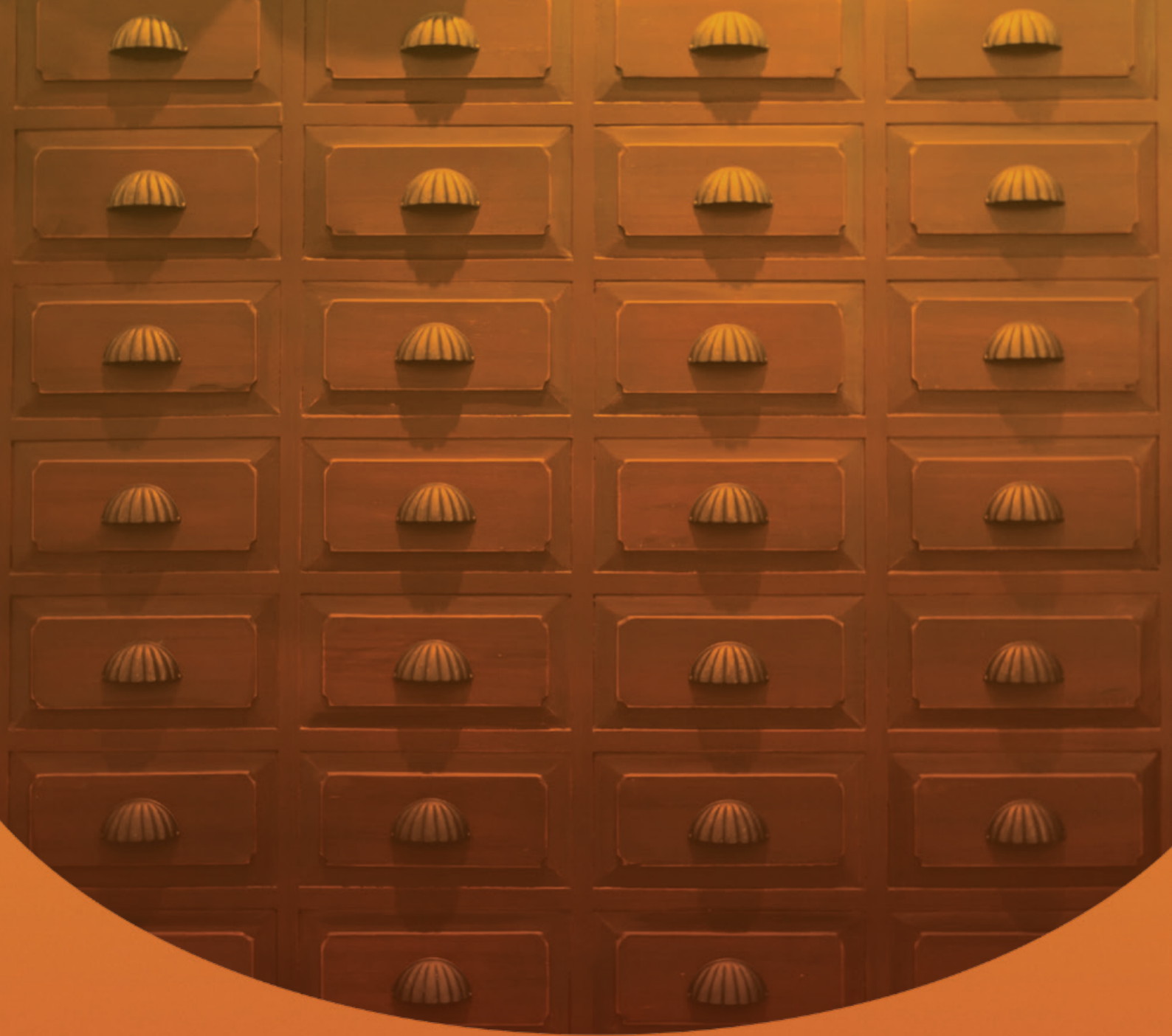


USA GMP Factory

The Group offers over 300 extensive herbal formula products in U.S. and Europe market under the brand "KAN" through its subsidiary, Kan Herb Company, in California. Meticulous about the efficacy, quality and safety of every proprietary products, Kan Herb manufactures "KAN" products at its production facilities in California, in compliance with GMP. In Kan Herb, it controls all phase of the production process, from procurement and testing of raw ingredients to the manufacturing and packaging of the products.



Quality is expressed throughout — from our use of innovative technologies, producing the greatest percentage of active herbal material per ounce, to excellence in customer service and professional consultation.



Products and Services Overview

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農本方[®]天然純萃飲

— 健康飲品 —

無添加

純天然

每包0.4 kcal



Products and Services Overview

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Nowadays, people are becoming increasingly health-conscious and quest for quality health products as well as improved quality of life. PuraPharm will continue to pioneer the modernisation and internationalisation of TCM, to introduce premium quality products and to promote healthy, happy and long lives for people through the oriental wisdom of TCM.

Our mission is simple:

We dedicate ourselves to humanity's quest for longer, healthier, happier lives through the innovation and modernisation of Chinese Medicine

NONG'S CCMG PRODUCTS

Traditionally, the preparation and dispensation of TCM is time-consuming and inconvenient and requires the storage of raw herbs by the Chinese medicine practitioner and the boiling or decocting of raw herbs into a liquid form for patients' consumption. PuraPharm has modernised the manner in which TCM is manufactured, prepared and consumed by offering a broad range of Nong's CCMG products for easy and immediate consumption. The Group's CCMG products are traditional Chinese medicinal herbs extracted into granules by using modernised extraction and concentration technologies to replicate the traditional method of preparing medicinal decoction. Standardised concentrated Chinese medicine granules should have the same degree of curative efficacy, taste, aroma and flavor as in traditionally-prepared medicinal decoction. It should also dissolve in hot water instantly. The Group has over 600 Nong's CCMG products for professional use by Chinese medicine practitioner for prescription service.

In 2020, through the contingency application procedure, Guangxi Zhuang Autonomous Region Food and Drug Administration ("GXFDA") of the PRC has approved and authorised PuraPharm Nanning to manufacture Qing Fei Pai Du Tang (清肺排毒湯) ("QFPDT") and Kang Fu Yi Hao Fang (康復1號方) granules. According to the clinical treatment result, QFPDT was recommended by the National Administration of Traditional Chinese Medicine to use nationally for the clinical treatment of COVID-19 pandemic. QFPDT granule manufactured by the Group was used for treatment of patients who contacted the COVID-19 pandemic.



OVER-THE-COUNTER (“OTC”) PRODUCTS

With innovative insights and advanced technologies, PuraPharm has also developed a series of over-the-counter health products, among which, brands such as PuraGold®, Oncozac®, Immuzac® and Haveron® enjoy great popularity in Hong Kong and overseas.

The Group’s ONCO-Z® Coriolus Versicolor Extract, the sole active ingredient of Oncozac®, was verified by the United States Pharmacopeial Convention (USP) and was the world’s first traditional Chinese medicinal ingredient verified by the USP Dietary Ingredient Verification Program. The USP standards are adopted in more than 140 countries in the world and are also widely recognised as one of the most stringent set of quality control standards for the assessment of the identity, strength, quality and purity of medicines. Our certifications under these international standards are testaments to the Group’s advanced production capacity and outstanding product quality.

Immuzac product has been researched for years using an advanced proprietary research technology, and proven to be effective in strengthening the body’s immune functions in defense against viral and contagious pathogenic infection, thereby increasing customer’s resistance to illnesses.



NONG'S (農本方®) CHINESE MEDICINE CLINICS

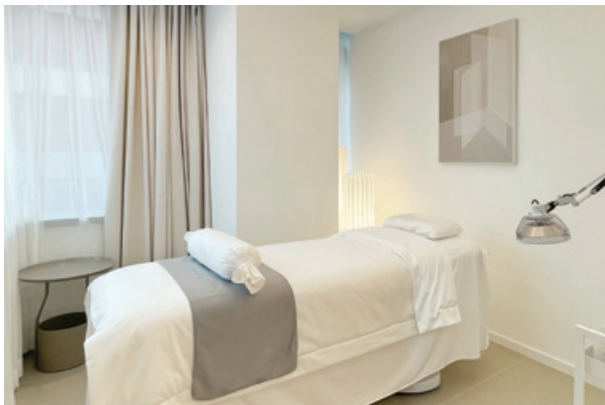
In addition to providing a broad range of CCMG products for Chinese medicine practitioners' professional prescription purposes and a complete Chinese Medicine Clinic Management System ("CMCMS") for general clinic management, PuraPharm has also established its own Nong's® (農本方®) Chinese medicine clinics to provide modernised Chinese medicine services. Nong's® (農本方®) Chinese medicine clinics are mostly located in shopping malls across Hong Kong. The Nong's® (農本方®) Chinese medicine clinics are operated by registered TCM practitioners who use the Group's CMCMS to prescribe the Group's CCMG products to patients.

Through a combination of Chinese medical skills, innovative technology, contemporary medicine and modernised management, Nong's® (農本方®) Chinese Medicine clinics provide patients with high-quality Chinese medical service as well as reliable, convenient and instant CCMG.

The Group's characteristics:

1. High-quality Chinese Medical Service

- All practitioners in the Group's Nong's® (農本方®) Chinese Medicine clinics are qualified University graduates and are registered CMPs, with profound knowledge in Chinese Medicine and years of clinical experience.



- Acupuncture and cupping services are also offered so as to provide the most suitable treatment for patients.

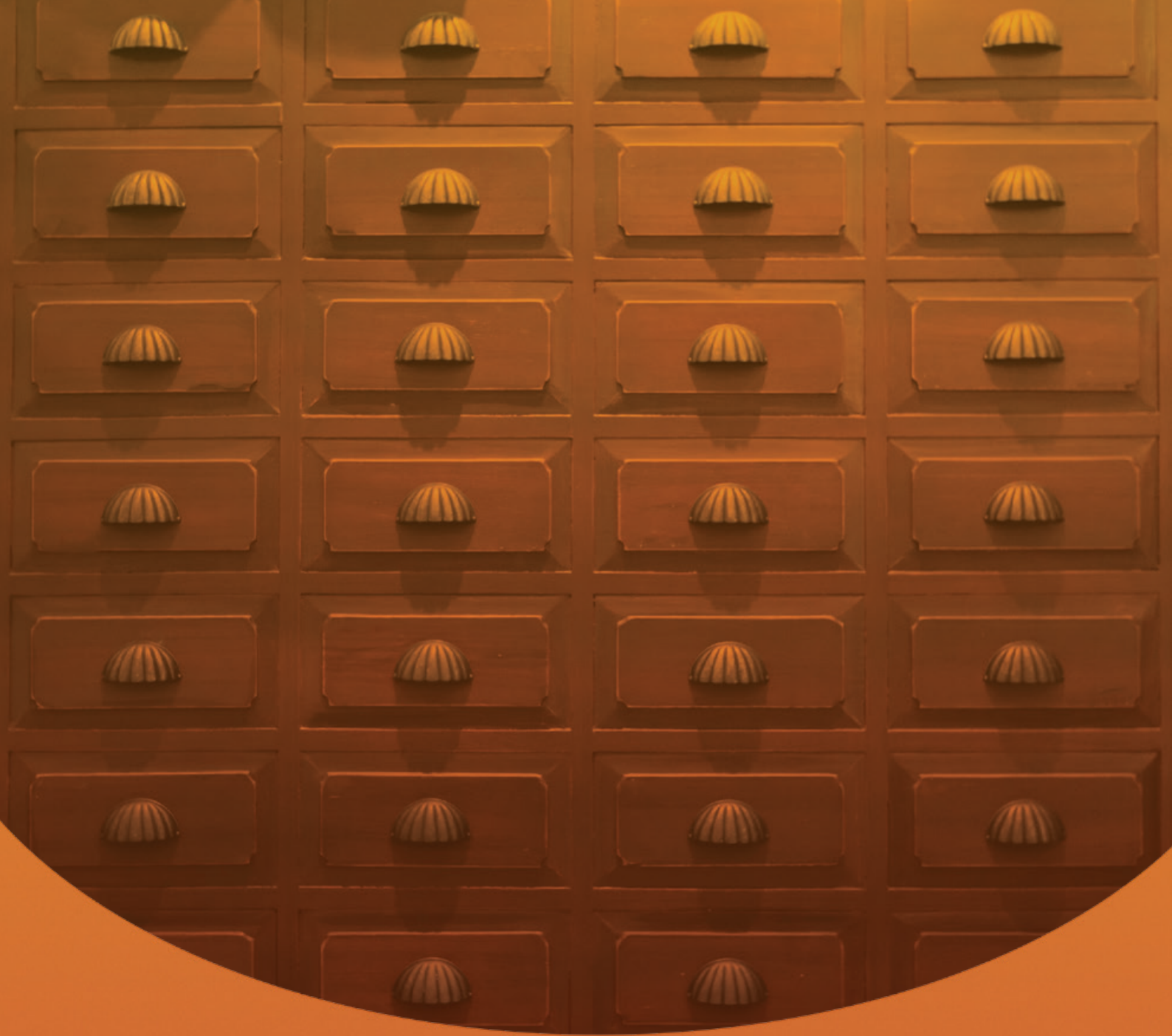
2. Tailor-made Health-keeping Service

- The Group believes everyone has his own needs. Patients can find the most suitable Chinese medicine treatment for their own body type through detailed analysis by the Group's Chinese Medicine Practitioners before consuming health products.

3. Scientific Management, Human-based Service

- Modern scientific management and advanced medical equipment are used in every process from patient registration, organisation of patients' medical records, medical diagnosis, prescription processing and inventory management to CCMG prescription dispensation.
- All medical records are computerised for easy retrieval.





Management Discussion and Analysis

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Management Discussion and Analysis

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FINANCIAL HIGHLIGHTS

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

For the year ended 31 December 2023, the Group recorded a revenue of HK\$406.9 million, representing a decrease of HK\$41.2 million or 9.2% compared to HK\$448.1 million in last year. The revenue decrease was mainly attributable to the decrease in revenue from China CCMG business for the full year of 2023 as a result of the implementation of the new policy of national standards for CCMG.

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

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

CHINA CCMG

For the year ended 31 December 2023, the China CCMG market was significantly impacted by the implementation of the new national standards in November 2021. Therefore, the sales of CCMG in China was HK\$50.8 million, representing a decrease of HK\$67.0 million or 56.9% compared to HK\$117.8 million in last year. The decrease in revenue from China CCMG business in this year was mainly attributable to (i) the hospitals and clinics delayed the purchase cycle and resumed in second quarter of 2023 and (ii) 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 2023.

HONG KONG AND OVERSEAS CCMG

According to a market research performed in 2023, the Group continued to maintain its leading market position in Hong Kong and sold its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the year, the direct sales of CCMG products in Hong Kong was HK\$208.4 million, representing an increase of HK\$16.3 million or 8.5% compared to HK\$192.1 million last year. For the year of 2023, the Group has improved both the segment's turnover as well as the gross profit through high quality customer service and stable supply of products, and due to Hong Kong market being unaffected by the new national standards. Also, under the direction of coexistence with COVID-19 since 2023, the efficacy of CCMG is more significant and consumers are more inclined to purchase traditional Chinese medicine for prevention and treatment of prolonged symptoms of "long COVID-19" and similar disease, which increased the demand of the CCMG products in Hong Kong market.

For the year ended 31 December 2023, the Group still remained as a leading CCMG supplier to the major non-profit organisations in Hong Kong, and continued to expand its customer base in private Chinese medicine practitioners sector.

CHINESE HEALTHCARE PRODUCTS

Sales by regions

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

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

Among the Group's Chinese healthcare products segment, the sales in the Hong Kong and Mainland market recorded a decrease of HK\$0.4 million, which is mainly attributable to the customers' reaction to the price increment effective in 2023, and slow down of sales of Chinese healthcare products in Hong Kong. This drop in sales was partly offset by the mild increase of sales revenue in U.S. market as a whole.

The Group has invested more resources during the year of 2023 in marketing and advertising of Chinese healthcare products, the expenses of which are recognized as an expense but should benefit the sales of the Group's various products in near future.

As the COVID-19 pandemic has lasted for more than three years and under the general trend for the society to coexist with COVID-19, the Group believes that consumers' health awareness will be increased and the growth in demand for healthcare products will 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 the PRC and overseas markets with great growth potential.

NONG'S® (農本方®) CHINESE MEDICINE CLINICS

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

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

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

PLANTATION

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

PROSPECTS

During the post-pandemic era, China's economy has maintained steady growth. The social and economic environment has been gradually recovering, resulting in the resumption in the production and consumption levels. At the same time, China has introduced a number of policies to encourage and support the innovative development of pharmaceutical enterprises and promote the "Internet+" mode of operation, which will transform into new positive developments to China's pharmaceutical industry. Furthermore, consumers have become more health-conscious, which will create more opportunities to the Group's Chinese healthcare products segment.

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

With respect to the research, development and production of Chinese medicine, the Group will continue to enhance the research and development of its high quality CCMG products, launch more innovative healthcare products featuring natural ingredients, enrich its product lines and improve its product quality. Furthermore, the Group actively cooperates with world-class research institutions to continuously promote the basic, molecular biology and drug application research of Chinese herbal medicine and to contribute to the sustainable development of the pharmaceutical industry. In the modernization of Chinese medicine, the Group actively promotes the business development of smart Chinese medicine clinics and insists on driving

the development of traditional Chinese medicine by modern technology. Meanwhile, the Group proactively deploys itself in the Greater Bay Area market by focusing on online marketing and broadening its customer base through the promotion of competitive products. The Group will continue to innovate and uphold the traditions, which enables CCMG to better suit modern people's living habits, and provides professional and accurate Chinese medical diagnostic services, so as to support the Chinese medicine business in all aspects.

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

PROFITABILITY

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

The Group's gross profit margin for the year ended 31 December 2023 was 53.2%, representing a decrease of 5.4%, as compared to 58.6% last year. The decrease in gross profit margin was due to the combined effect of the decrease in gross profit margin in China CCMG segment because the cost of CCMG produced under the new standards was higher than before and the market was still undergoing on adjustment to the adoption of the higher pricing and the decrease in gross profit margin in plantation segment due to the discounted sales of slow-moving Chinese raw herbs in Guizhou.

OTHER INCOME AND GAINS

The Group's other income and gains mainly comprised of government grants, gain from sale of equipment and accessories and interest income. For the year ended 31 December 2023, the Group's other income and gain was HK\$15.2 million, representing a decrease of HK\$0.8 million compared to HK\$16.0 million last year.

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

SELLING AND DISTRIBUTION EXPENSES

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

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

ADMINISTRATIVE EXPENSES

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

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

For the year ended 31 December 2023, the Group's operating expenses for clinics segment was HK\$32.3 million, representing an increase of HK\$6.5 million or 25.0% compared to HK\$25.8 million last year. The increase was mainly attributable to the increase in rental expense for Hong Kong clinics and the increase in commission of the Chinese medicine practitioners in clinics, which was in line with the increase in revenue in the clinics segment. The number of clinics in operation in Hong Kong increased from 22 clinics as at 31 December 2022 to 23 clinics as at 31 December 2023.

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

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

OTHER EXPENSES

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



FINANCE COSTS

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

INCOME TAX EXPENSE

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

LOSS FOR THE YEAR

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

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

LIQUIDITY AND FINANCIAL RESOURCES

Cash position and interest-bearing bank and other borrowings

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

The Group generally finances its operation with operating cash flows and bank and other borrowing facilities. The Group actively manages the cash and borrowings of the Group to ensure an appropriate level of liquidity and sufficient funds are available to meet the Group's business need. The Directors believe that the utilisation rate of the banking facilities has been maintained at a reasonable level. The Directors also believe that the existing banking facilities are at an appropriate level to support the operating needs of the Group.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| The carrying amount of bank loans and other borrowings repayable is set out below: | | |
| Within one year or on demand | 304,023 | 410,140 |
| In the second year | 11,147 | 9,814 |
| In the third to fifth years, inclusive | 59,841 | 21,747 |
| Beyond five years | 10,105 | 17,119 |
| Total | 385,116 | 458,820 |

The borrowings were principally denominated in Hong Kong Dollar and RMB and were at floating interest rates mainly with reference to Hong Kong Interbank Offered Rate (HIBOR) or PRC loan prime rate (LPR), respectively.

Cash flow and liquidity ratio analysis

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

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

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

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

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

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

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

PLEDGE OF ASSETS

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

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

CAPITAL COMMITMENT

The Group had the following capital commitment:

| | Year ended 31 December | |
|---------------------|------------------------|---------------|
| | 2023 | 2022 |
| | HK\$'000 | HK\$'000 |
| Land and Buildings | 27,423 | 24,245 |
| Plant and machinery | — | 196 |
| | 27,423 | 24,441 |

CONTINGENT LIABILITIES

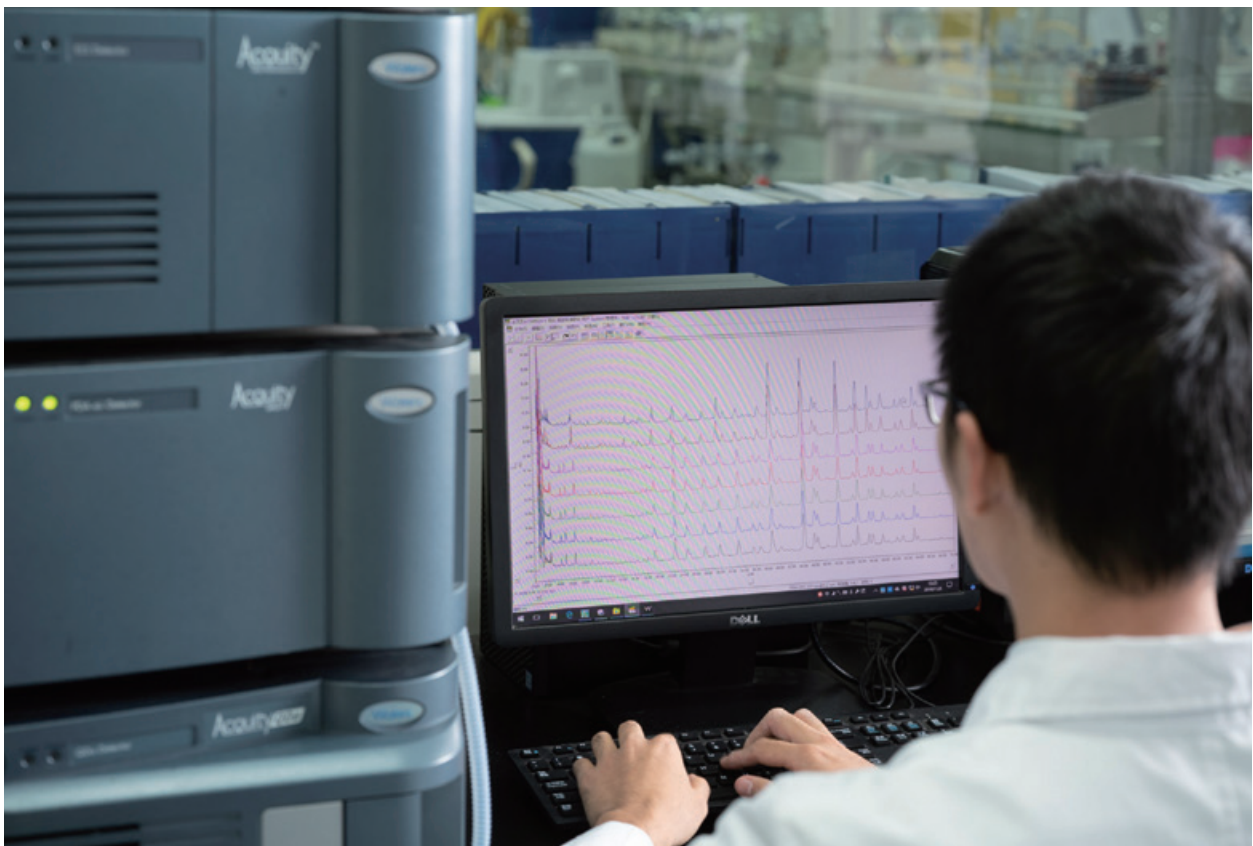
There were no material contingent liabilities of the Group as at 31 December 2023.

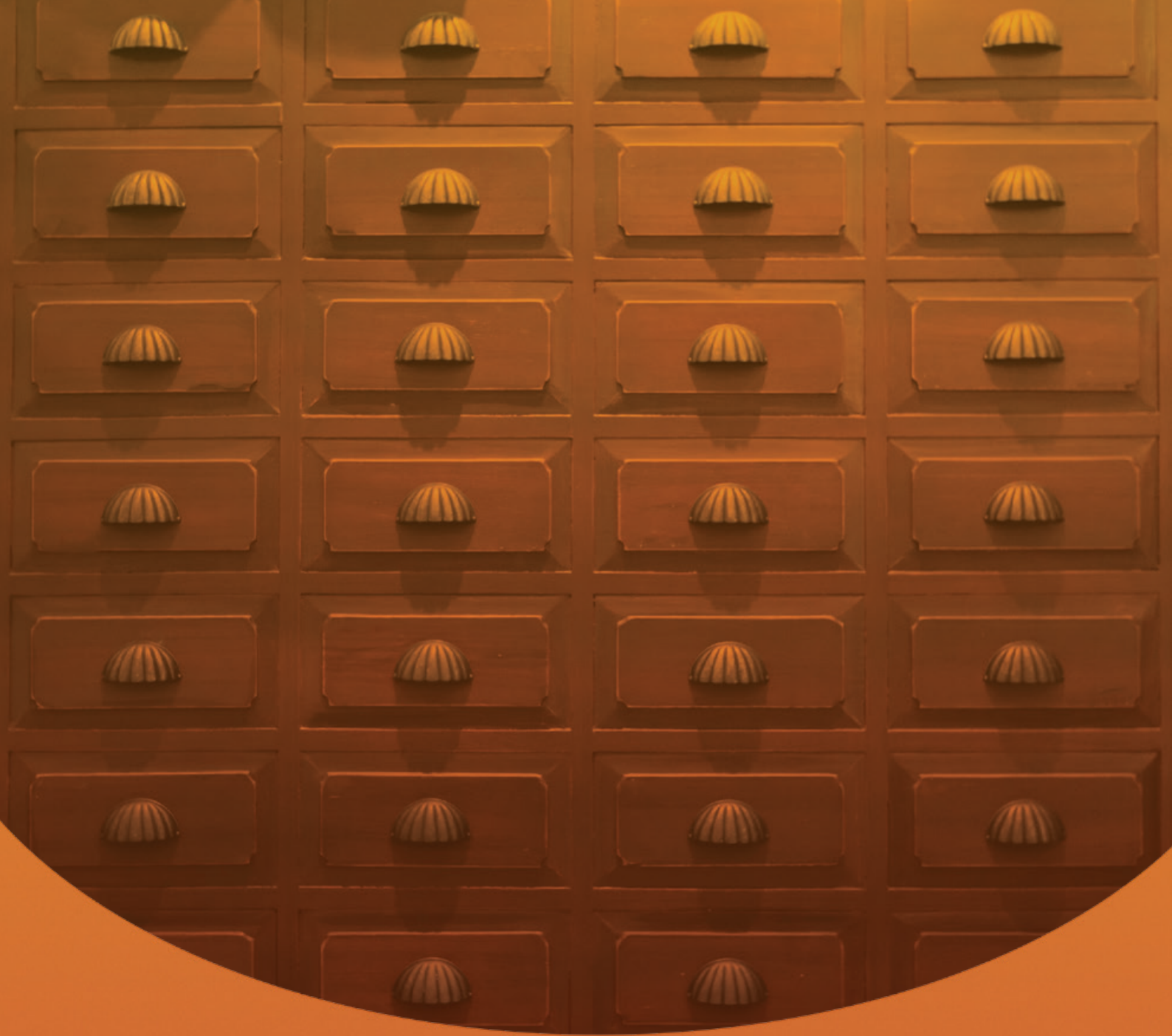
EXCHANGE RISK

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

HUMAN RESOURCES

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





Environmental, Social and Governance Report

PuraPharm Corporation Limited
– 2023 Annual Report



Environmental, Social and Governance Report

PuraPharm Corporation Limited
– 2023 Annual Report

1. ABOUT THE REPORT

1.1. Reporting standards, scope & period

The Environmental, Social and Governance (“ESG”) report (the “report”) was prepared in accordance with Environmental, Social and Governance Reporting Guide (“ESG Reporting Guide”) of The Stock Exchange of Hong Kong Limited (the “HKEX”) as set out in Appendix C2 to the Rules governing the Listing of Securities (the “Listing Rules”) on the HKEX. PuraPharm Corporation Limited (the “Group”, “PuraPharm”, “we” or “our”) adhered to the principles of materiality, quantitative, balance and consistency to report on ESG measures and performances. Information regarding corporate governance is addressed separately in the annual report in pursuance of Appendix C1 of the Listing Rules.

The scope of the report includes the Group’s offices, manufacturing plants, warehouses and Nong’s clinics operating in Hong Kong and Beijing, Shanghai, Guizhou and Guangxi in the People’s Republic of China (the “PRC”), unless otherwise specified. Concerning the reporting principles of materiality, the operations in Japan and the United States are not included in this report because the environmental and social impacts of the operation are insignificant and immaterial to our business and the community.

The establishment of the Chinese medicine clinic, Nong’s clinic in 2014 aimed to support different stakeholders’ demands. The network of Nong’s clinics is achieving the mission of the Group in bringing longer, healthier and happier lives by providing quality pharmaceutical products and services to the community.

The report covered the financial reporting period from 1 January 2023 to 31 December 2023 (the “Reporting Period”). During the Reporting Period, there were 23 Nong’s clinics operating across Hong Kong, with an additional 2 clinics in the PRC. All ESG-related activities during the Reporting Period were presented in this report.

1.2. Reporting Principles

The Group has followed the reporting principles set out in HKEX ESG Reporting Guide in the preparation of this ESG Report.

- **Materiality:** The Group has invited our ESG Committee to take part in a stakeholder engagement interview, where the most material topics to our business operations were identified based on the interview. Please refer to the section headed “Materiality Assessment” for details.

- **Quantitative:** The Group records, calculates and reports the ESG-related information quantitatively to evaluate the effectiveness of ESG policies and management approaches. An independent consultant was engaged to perform the calculations to ensure the accuracy and validity of the data.
- **Balance:** The Group discloses our ESG performance fairly and unbiasedly and discloses all management approaches and initiatives for the material issues as well as the challenges faced by the Group.
- **Consistency:** The Group ensures that the preparation approach and calculation methodologies of this ESG Report were consistent with the previous years and followed the HKEX ESG Reporting Guide to provide the disclosures consistently and comparably.

2. CONTACT DETAILS

The Group values our stakeholders' opinions and welcome our stakeholders to contact the Group by phone at 2840-1840 from 9 a.m. to 6 p.m. (Monday to Friday, excluding Hong Kong public holidays) or send an email to info@purapharm.com, in case of any doubts or suggestions.

3. CHAIRMAN MESSAGE

Dear Stakeholders,

We are honoured to present our ESG Report and the sustainability-related achievements that we accomplished in 2023.

Since its establishment in 1998, PuraPharm has achieved remarkable development and accomplishments in the fields of Traditional Chinese Medicine (TCM) and public health. We are dedicated to continuously invest in innovation and pioneering research, aiming to provide professional, high-quality, safe, and reliable herbal products while modernising traditional medicine.

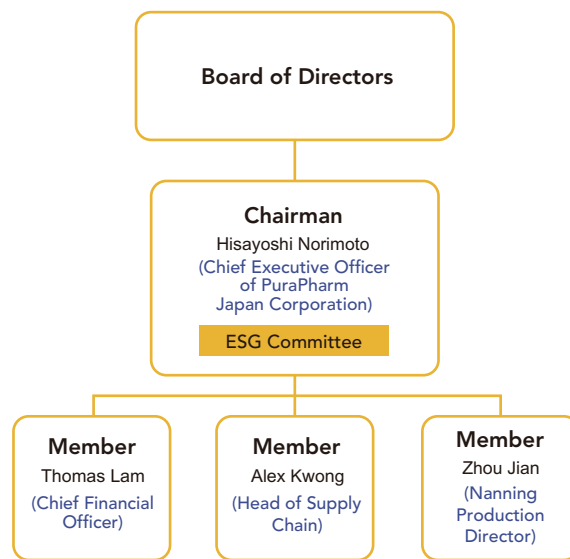
As a Chinese medicine manufacturer, climate-related risk represents a significant risk that threatens our operation due to the proneness of raw herb supplies to natural disasters and climate events. Taking this into consideration, we have developed corresponding environmental targets and policies to manage the associated risks. The Board of Directors (the "Board") was also aware of the upcoming ESG requirements initiated by the HKEX and have integrated sustainability concepts into our decision-making processes.

On behalf of the Board and PuraPharm, we are expressing our sincere appreciation and gratitude for our employees and other stakeholders' unwavering commitment to the Group's sustainable development. We will persist in promoting the sustainability and stability of our business. Meanwhile, we intend to continue to boost our product positioning to be the most premium brand in the industry.

Chan Yu Ling, Abraham
Chairman

4. SUSTAINABILITY GOVERNANCE

The Board, the highest decision-making body at PuraPharm, is in charge of overall ESG management and reporting. The Environmental, Social and Governance Committee (the “ESG Committee”), consisting of heads of corporate-level departments, has been established by the Board to assist in the handling of the Group’s ESG-related issues, including governance, policies, initiatives, performance and reporting.

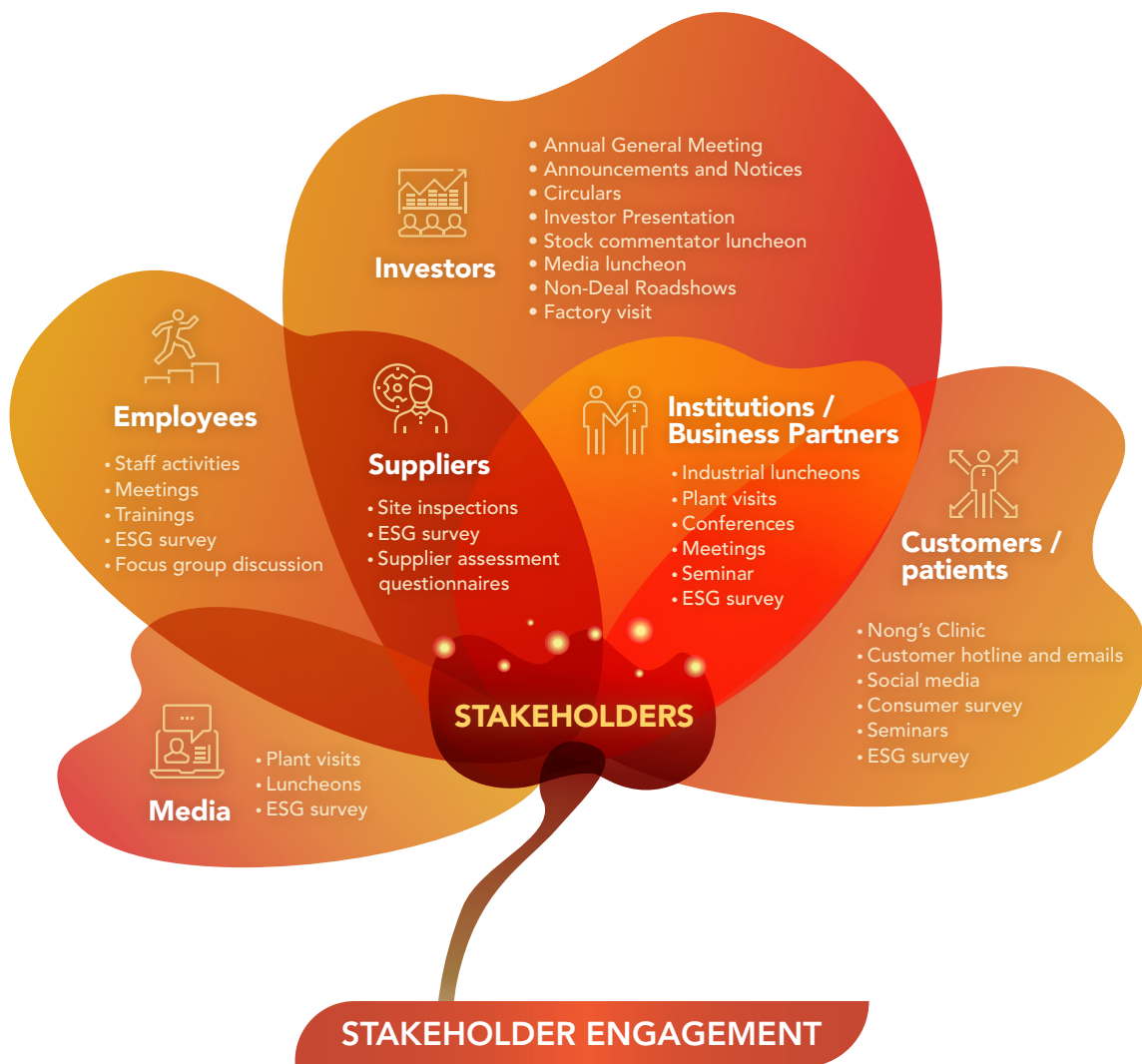


Key responsibilities of the ESG Committee:

- To identify the relevant ESG matters that significantly affects the Group’s operation and/or other important stakeholders’ interests;
- To adopt and revise the Group’s ESG policies, strategies and practices on production safety, environmental protection, social responsibility management and corporate governance;
- To review and conduct risk assessments related to the Group’s impact on health, safety, environment and society;
- To review and set the Group’s ESG-related goals and targets;
- To monitor the Group’s ESG performance;
- To review the Group’s ESG Report; and
- Other ESG-related issues authorised by the Board.

5. STAKEHOLDER ENGAGEMENT

PuraPharm prioritises stakeholders' feedback on the path to sustainable growth. In order to facilitate the exchange of views, the Group has established the following communication channels for our stakeholders:



6. MATERIALITY ASSESSMENT

Materiality assessment is a crucial component of sustainable development as it allows the Group to understand stakeholders' expectations and concerns regarding the Group's development and prioritise ESG issues according to their importance to the Group. Last year, the Group conducted a stakeholder engagement interview with its ESG Committee to oversee the progress and performance of the ESG development. The ESG Committee consists of members from different departments, including marketing, manufacturing and supply chain departments in Nanning, Guizhou and Hong Kong respectively. The ESG Committee believes that ESG performance significantly impacts the Group's revenue, reputation and investment opportunities and has therefore put more effort into enhancing the Group's ESG performance.

During the Reporting Period, the Group continues to consider the environmental and social topics identified by the ESG Committee during the stakeholder engagement interview as material, namely energy usage and conservation, air pollutants emissions, customer privacy, product quality assurance, and occupational health and safety. The Group is constantly seeking various mitigation measures to increase energy efficiency and reduce emissions in order to mitigate the environmental impacts. The Group places significant emphasis on addressing climate-related risks. As PuraPharm manufactures Chinese healthcare products, climate change would significantly impact on the Chinese herb plantations, destabilising raw material supply and product price. Therefore, the Group aims to enhance the adaptation to climate change by capacity building for predicting and responding to extreme weather events. For example, the development of a herbs resources centre is proposed, together with the improvement in production line efficiency to ensure the proper storage of herbs in the event of sudden shortages of herb supply. In addition to our environmental initiatives, the Group emphasises on product quality and customer privacy, as customers are one of our major stakeholders. Regarding health and safety, the Group safeguards employees and verifies the quality control of the medicine for customers. The Group also endeavours to raise awareness of ESG development among our customers through promotional efforts.

7. CONSOLIDATING OUR SUSTAINABLE VALUE CHAIN

PuraPharm aims to become the most admired Herbal Medicine Company by advancing the modernisation of traditional medicine via innovation and pioneering research while providing effective, safe and reliable products. Since our establishment in 1998, the Group has developed and delivered the highest quality TCM to people by implementing management and control over the entire value chain.

7.1. Sustainable supply chains

7.1.1. Raw herb selection and management

To ensure a consistent and high-quality supply of herbal raw materials, the Group established its own Chinese herb plantation in Guizhou, where it can harvest over 50 kinds of herbs. To protect herb species, the Group has actively collaborated with internationally renowned scholars to establish the National Research Centre of Medicinal Plants and Seed Breed in Guizhou. In addition to biodiversity conservation, the Group has performed waste management in the fields by collecting and converting the herb residues from the manufacturing process to sustain a circular economy.

7.1.2. Sustainable procurement

To ensure the quality and availability of herbal raw materials, PuraPharm is fully aware of the environmental, social and economic impacts associated with our procurement activities. The Group recognises our responsibility to manage those impacts, hence has taken ESG impact into consideration during our procurement decisions to improve the overall sustainability and resilience of our supply chain. The Group has implemented the Sustainable Procurement Policy in conjunction with other procurement policies both at group and subsidiary level to manage environmental and social risks along our supply chain.

A procurement policy is implemented for our procurement team to assess the suitability and performance of potential and existing suppliers. In addition to suppliers' performance, quality and integrity, the procurement team also considers their environmental and social performance during the evaluation process. The Group requires suppliers to comply with relevant environmental and social laws and regulations. During the product selection process, the Group prioritises environmentally friendly products that promote health and wellness. After a comprehensive evaluation, the qualified suppliers are included in our approved suppliers and contractors list. Our suppliers' ESG performance is reviewed annually to ensure compliance and continuous improvement in sustainable procurement. In the meantime, the Group is responsible for communicating sustainable procurement policies with all relevant stakeholders and providing training and guidance to our employees and suppliers.

The Group is committed to:

Responsible and ethical sourcing



- Consider the environmental and social impacts in the **full product and service life-cycle**
- Consider **life-cycle costings** of products and services
- Source products that are **environmentally-friendly and conducive for health and wellness** as an alternative to conventional ones
- **Minimize consumption or sale of retail products** which are environmentally and socially detrimental
- Consider **potential health hazards** during the consumption of products
- Explore procurement from diverse suppliers that **support the local economy** and / or **socially vulnerable groups**

Integrating sustainability into new supplier selection



Preference would be given to suppliers who:

- demonstrate a commitment to **sustainable development**;
- comply with all applicable **ESG related laws and regulations**;
- have in place a **sustainability policy** and their **own supplier code of conduct / sustainable procurement policy**; and
- adopt **internationally-recognized ESG management system(s)** such as **ISO 14001 Environmental Management System, ISO 45001 Occupational Health and Safety Management System** and other equivalent management systems.

Number of suppliers by geographical region

| Geographical region | Number of suppliers | |
|---------------------|---------------------|------|
| | 2023 | 2022 |
| PRC | 209 | 402 |
| Hong Kong | 28 | 28 |
| Others | 3 | 3 |

7.1.3. Anti-corruption policy

To uphold the highest standards of business ethics, the Group places great emphasis on the integrity and ethical behaviours of our suppliers. During the Reporting Period, the Group has distributed the Company Code of Conduct to our suppliers, demonstrating our commitment to ethical business practices. The statement explicitly prohibits employees and suppliers from soliciting and receiving illegal benefits from companies. We encourage our suppliers, staff members and other stakeholders to report suspected misconduct anonymously or directly through our whistleblowing channels. The Internal Audit Department is responsible for investigating corruption and bribery. If an employee violates rules or commits a crime such as corruption, the Group reports the case to the relevant authority. The Group's employee handbook includes anti-corruption provisions, which regulate and remind the staff members to prevent situations that may create and involve conflicts of interest. Annual anti-corruption training is also provided to employees and Board members, in cooperation with the Independent Commission Against Corruption (ICAC). There were no violations related to corruption in any form during the Reporting Period. The Group has complied with all local laws and regulations regarding bribery, extortion, fraud and money laundering.

7.2. Sustainable products

PuraPharm is committed to delivering professional, high-quality, safe and environmentally friendly herbal products. By having control at nearly every stage of the production process, PuraPharm has built a complete supply chain of TCM from the origin to the retail counter.

7.2.1. Quality assurance

As a trusted brand with a wide range of TCM, PuraPharm believes that quality control is one of the crucial elements leading to our success. Therefore, the Group makes every effort to implement strict quality control measures to ensure the highest product quality standards.

The Group adheres to the Good Manufacturing Practices (GMP) standards of the National Medical Products Administration of the PRC (NMPA), the Therapeutic Goods Administration of Australia (TGA), and the United States Pharmacopeia Convention (USP). PuraPharm has also implemented a stringent quality control system and standard operating procedures. Prior to packaging, every batch of products will undergo multiple tests. Our quality control team conducts product safety testing within PuraPharm's in-house testing laboratory to ensure that our products meet international standards. The laboratory is ISO 17025:2005 accredited by the China National Accreditation Service for Conformity Assessment (CNAS). Our products are tested against heavy metals, toxic elements, microbe and pesticide residue levels using the latest testing techniques and instruments, including DNA fingerprinting in plants, Fourier Transform Infrared Spectroscopy (FTIR) and Ultra-High-Performance Liquid Chromatography (UHPLC).

PuraPharm places great emphasis on maintaining and improving the quality of its products and has the following quality procedures in place:



7.2.2. Product labelling and reliability

PuraPharm realises that product labelling and marketing are essential as they help our products stand out in the market, and more importantly, provide accurate information to consumers. Hence, the Group regularly checks product labels for any false or misleading information and complies with all relevant laws and regulations, including the Trade Description Ordinance. Adhering to the Chinese Medicines Regulations, we ensure that essential information such as medication instructions, manufacturing date, expiry date and ingredients have been clearly labelled on the product packaging.

7.2.3. Product recall & complaint handling procedures

It is essential to understand customers' expectations and facilitate continuous improvement. Hence, the Group has established various communication channels to collect opinions about our products and services and has established standardised complaint procedures to address customer complaints and provide a contingency for the side effects of the products. If complaints are received, the relevant departments will investigate and manage the customer's needs. Our system is designed to ensure that suspected defective products are recalled from the market quickly and effectively following the Standard Operation Procedure of Product Recall.

Due to our strict quality assurance process, the Group was not aware of any significant product or service-related complaints or product recalls for health and safety reasons during the Reporting Period.

7.2.4. Customer privacy and data protection

As a responsible company, the Group recognises that the protection of customer privacy is both a significant challenge and an opportunity to foster trust. Consequently, the Group strives to protect our customers' and patients' confidential information. Our internal guidelines set the standard procedures for collecting and processing customers' personal information to prevent data breaches. All employees must adhere to the relevant provisions of the Personal Data (Privacy) Ordinance and comply with the six Data Protection Principles under the Ordinance when collecting, using, disclosing and retaining business-related customer data.

7.2.5. Safeguard intellectual property rights

PuraPharm protects intellectual property and the confidentiality of resources for business development. The Group has applied for and secured patents to protect our unique manufacturing technologies, prescriptions and innovations. To ensure the protection of our brand identity, we have registered multiple trademarks, including Oncozac® and PuraGold® to prevent abuse of our product or brand names. Moreover, employees play a crucial role in safeguarding PuraPharm's intellectual properties. All product development staff are required to sign a "Non-disclosure Agreement" to keep all sensitive information confidential.

8. PROTECTING OUR PLANET

8.1. Climate change

As the significance of climate change impacts becomes increasingly important and relevant to the Group's businesses, the Group has incorporated climate change risk considerations into our risk management process. Climate risks can be classified into physical and transition risks. In our efforts to mitigate the impacts of climate change, adapt our operations to climate change and enhance resilience, the Group is committed to identifying, assessing and managing risks associated with our operations and continuing to strengthen our strategies and policies that will guide the Group towards a low-carbon and resilient future.

Physical climate risks

Physical climate risks such as typhoons and sea level rise are directly associated with climate change. While the growth of herbs can be severely affected by climate change, we are finding and adopting ways to reduce the vulnerability of herb plantations. We are also intensifying our efforts to enhance our adaptability in herb storage.

Transition climate risks

Aligning with the PRC and Hong Kong carbon neutrality targets, the Group has implemented a group-wide climate change policy that clearly outlines our commitment to managing climate impacts across our operations. The policy sets out a structured and methodical approach to identify, assess and manage the climate-related risks associated with our pursuit of sustainable business development.

8.2. Greenhouse gas (GHG) emissions and energy consumption

The primary source of PuraPharm's emission is categorised as indirect emissions (Scope 2) arising from purchased electricity consumption. Electricity is utilised for the operation of our manufacturing equipment and lighting fixtures across our offices, factories and clinics. In order to reduce energy costs and take responsibility for environmental protection, the Group is committed to reducing energy consumption, as reflected in our targets for GHG emissions reduction and energy intensity reduction.

GHG EMISSION TARGETS

Reduce the total GHG emissions
intensity for 2030 by

20%



compared to
the intensity
for 2020

ENERGY USE EFFICIENCY TARGETS

Reduce the energy
intensity for 2030 by

20%



compared to
the intensity
for 2020

PuraPharm adopts a series of measures in both factories and offices to promote energy efficiency and mitigate climate change risks.

CLIMATE CHANGE MITIGATION MEASURES

Factories

- Implemented the **Japanese 7S management framework** in the factory for energy saving
- Improved the production process to **shorten the machine operating time** in the drying process
- Installed the **Modified Mechanical Vapor Recompression (MVR) system** to reduce electricity, water, and steam consumption
- Implemented a **"10-day work, 3-day rest"** policy to shut down all the equipment during 3 resting days
- Installed **electric meters to monitor electricity** consumption in factories to identify any abnormality
- Installed **steam ejection pumps** for waste heat collection and re-use




Office

- Kept the office temperature between **24 °C and 26 °C**
- Adopted **LED lighting** with higher energy efficiency
- Procured **energy-efficient electrical appliances** with energy labels




In addition to the above measures, the Group plans to reduce GHG emissions by installing solar panels in future years.



Energy Consumption

| | Unit | 2023 | 2022 |
|--|--------------------|------------------|------------------|
| Total Electricity Consumption | MWh | 10,404 | 10,312 |
| Total Petrol Consumption | L | 7,126 | 4,998 |
| Total Diesel Consumption^(Note 1) | L | 6,830 | 155 |
| Total Liquefied Petroleum Gas Consumption | kg | 562 | 515 |
| Total Natural Gas Consumption | m ³ | 1,612,395 | 2,057,010 |
| Total Energy Consumption | GJ | 101,014 | 117,613 |
| Total Energy Intensity^(Note 2) | GJ/million revenue | 248.579 | 262.529 |



Note 1: The increase in the total diesel consumption in the Reporting Period compared to the previous year is attributed to a newly added truck to transport herbs starting from November 2022.

Note 2: The intensities are rounded to three decimal places to enhance the comprehensiveness of the data presentation.



GHG emissions ^(Note 1)

| | Unit | 2023 | 2022 |
|---|---|---------------|---------------|
| Direct GHG emissions (Scope 1) | tonnes of CO ₂ equivalent (tCO ₂ e) | 4,205 | 4,471 |
| Indirect GHG emissions (Scope 2) | tCO ₂ e | 8,624 | 8,503 |
| Total GHG emissions | tCO ₂ e | 12,829 | 12,974 |
| Total GHG emissions intensity^(Note 2) | tCO ₂ e/million revenue | 31.569 | 28.959 |



Note 1: Calculation standards and methodologies for carbon emissions: Carbon emissions are calculated using “How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs” published by HKEX. The sources of published emission factors for the disclosure of carbon emissions are:

- Latest sustainability reports of the local utility companies (Hong Kong Electric and CLP)
- “How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs” published by HKEX
- “Guidelines for Calculation Methods and Reporting of Greenhouse Gas Emissions from Industrial and Other Industrial Enterprise” published by the National Development and Reform Commission of the People’s Republic of China

Note 2: The intensities are rounded to three decimal places to enhance the comprehensiveness of the data presentation.

8.3. Water & wastewater management

The Group is dedicated to reducing water consumption and utilising water responsibly throughout our operations. Our water consumption was primarily attributed to product manufacturing, equipment cooling and daily cleaning at factories and offices. The Group has developed our water-related targets. Despite having no difficulties in sourcing water, the Group remains committed to minimising water pollution and improving efficiency via the following strategies:

WATER CONSUMPTION TARGETS

Reduce the water consumption intensity for 2030 by

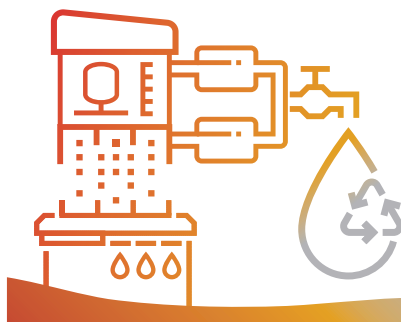
20%



compared to the intensity for 2020

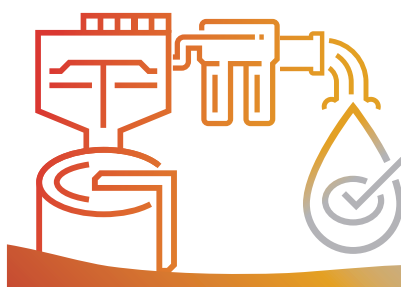
WATER EFFICIENCY ACTIONS

Water Consumption

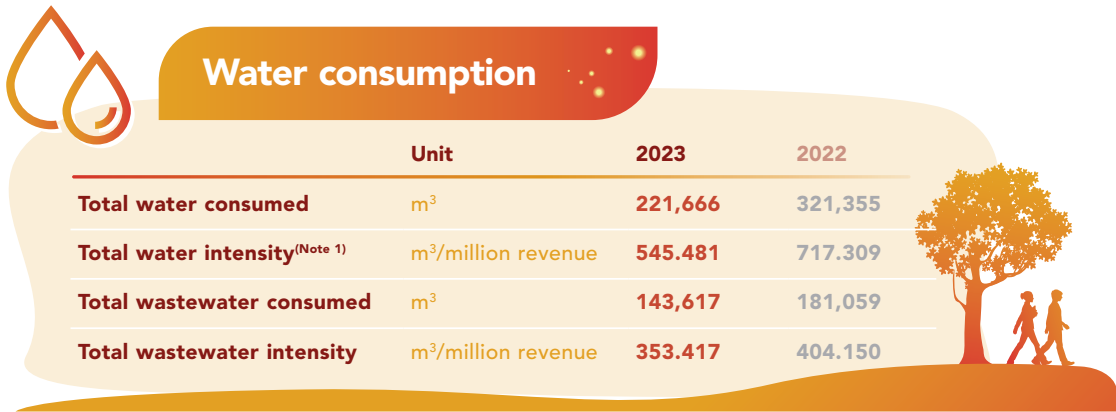


- Implemented **Japanese 7S management framework** in the factory for water saving
- **Collected water vapor** generated by the equipment in the production process for cleaning use
- Replaced Freon cooling systems with **water curtain cooling system**
- Applied **water cooling system** for equipment, such as heat exchanger and vacuum pump to ensure **water was used and recycled at 100%**
- **Installed irrigation sprinkler** to control and save water
- Used **river water** for irrigation

Wastewater management



- Equipped wastewater treatment station which has the capacity of **490 tonnes of waste water treatment per day**
- Ensured wastewater has met the **Integrated Wastewater Discharge standards** set by the PRC government before it discharged into the municipal sewer network



Note 1: The intensities are rounded to three decimal places to enhance the comprehensiveness of the data presentation.

8.4. Waste management

As a TCM manufacturer and clinical service provider, our operations generate both hazardous and non-hazardous waste during the manufacturing process and acupuncture services, which include acupuncture needles used in the clinics and chemical products in the testing laboratory. Therefore, it is crucial for us to closely monitor our waste production and reduce our waste footprint. To mitigate the potential environmental impacts of hazardous waste, the Group has established specific waste reduction targets and issued comprehensive guidelines for the management of hazardous waste. It is the responsibility of our staff to sort and handle hazardous waste before our licensed waste collector proceeds with waste collection. In addition, the Group has adopted the following initiatives to minimise non-hazardous waste disposal:

WASTE REDUCTION TARGETS

Reduce the non-hazardous waste intensity for 2030 by



20%

compared to the intensity for 2020

Reduce the hazardous waste intensity for 2030 by



20%

compared to the intensity for 2020

Waste management initiative

The Group actively participates in the Plastic Bottles Collection Scheme of designated recyclers. In the reporting period, **27,719** plastic bottles, a total of **1,580 kg**, were recycled.

Sorted and recycled the packaging materials in the production process, such as cartons, plastic bags, plastic bottles, and iron wire.

The Group's manufacturing plants is expected to produce **2,288 tonnes** of wet herb residue in 2023. To dispose the herb residue waste properly and enhance its added value, the group **uses advanced technology to transform herb residue into organic fertiliser**, which can be used to grow TCM at our plantation base.

The Group adheres to the following process to implement a sustainable waste management process:





| Waste management | | | |
|--|---------------------------|--------|-----------------------|
| | Unit | 2023 | 2022 |
| Non-hazardous waste | | | |
| Herbal residues | tonne | 2,288 | 3,143 |
| General refuse ^(Note 1) | tonne | 11 | 100 |
| Packaging materials | tonne | 214 | 210 |
| Recycled waste | tonne | 15 | 14 |
| Non-hazardous waste intensity ^(Note 2) | tonne/ million revenue | 6.220 | 7.737 |
| Hazardous waste | | | |
| Acupuncture waste | kg | 3 | 1 |
| Hazardous liquid waste | L | 6,589 | 8,206 |
| Hazardous liquid waste intensity ^(Note 2) | L/million revenue | 16.213 | 18.317 |
| Hazardous solid waste | tonne | 2 | 6 ^(Note 3) |
| Hazardous solid waste intensity ^(Note 2) | tonne/ million revenue | 0.004 | 0.014 |



Note 1: The reduction in general waste in the Reporting Period compared to the previous year is attributed to the decline in production in the Reporting Period.A

Note 2: The intensities are rounded to three decimal places to enhance the comprehensiveness of the data presentation.

Note 3: The hazardous solid waste data and intensity for FY2022 have been restated.

9. BUILDING OUR TALENTED TEAM

PuraPharm believes that human resources represent the cornerstone of our most invaluable assets. Hence, the Group is committed to building a professional and harmonious team, providing support and fostering continuous developing.

9.1. Attracting and retaining talents

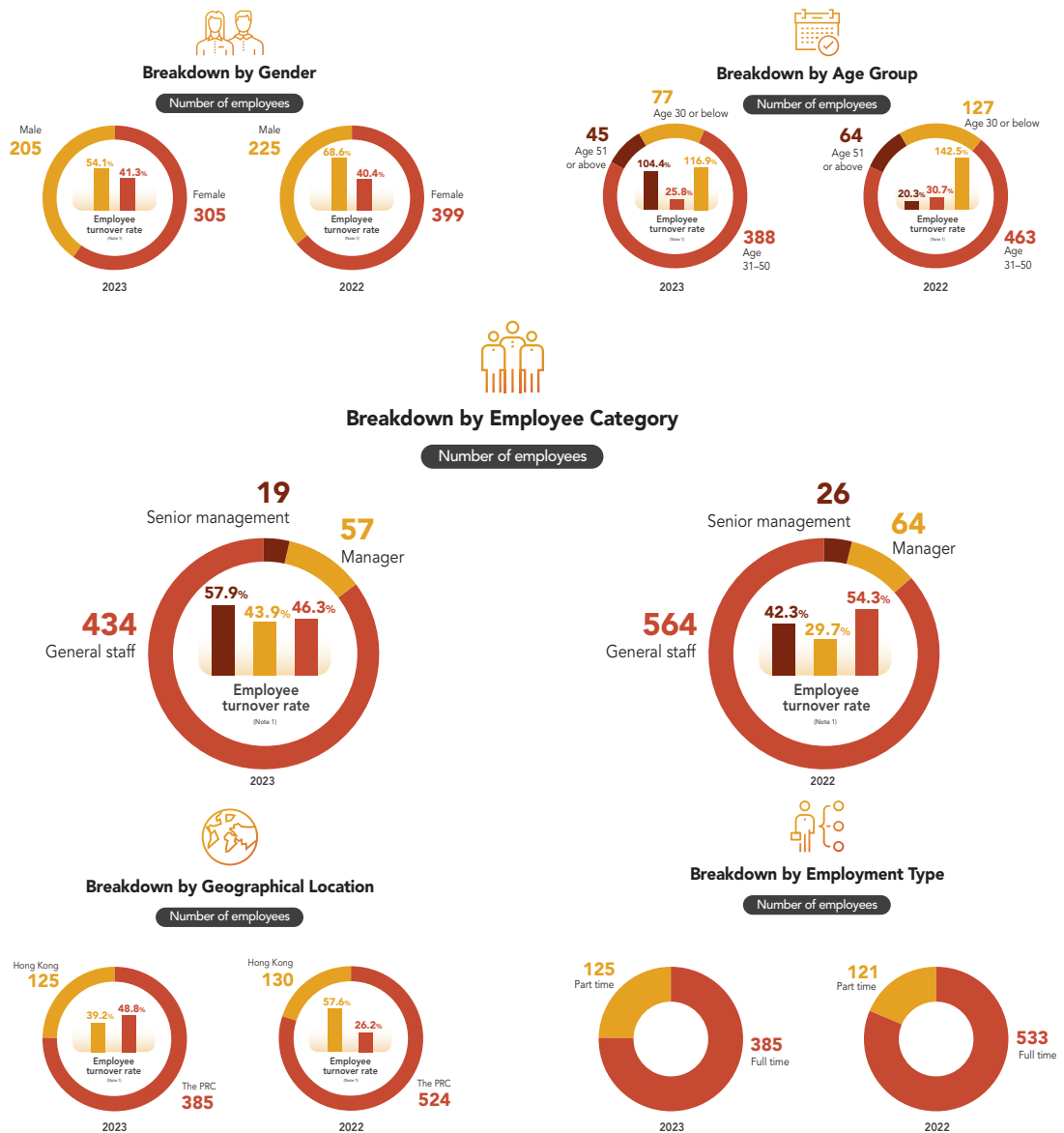
Our employment policy is founded upon principles of integrity, equality and fairness. We are dedicated to providing a work environment that is both fair and safe, where equal opportunities are extended to all. Candidates are assessed based on their experience, skills and qualifications, regardless of their gender, age, religion or other irrelevant criteria in relation to their suitability for the position.

In addition to our commitment to eradicating discrimination and harassment, the Group strictly adheres to all relevant labour laws and regulations and prohibits the employment of child labour and forced labour. The Human Resources Department verifies the candidates' identities and working permits to prevent any instances of child labour and forced labour. There were no reported violations of labour regulations during the Reporting Period.

To incentivise our employees for their productivity and loyalty, PuraPharm offers competitive remuneration packages along with attractive fringe benefits, including special leaves, medical insurance and Employee Discount Programmes, and regularly reviews the welfare policies and packages. The Group also promotes work-life balance and fosters an inclusive culture. In this regard, the Group organises regular staff activities to enhance team communication and employees' sense of belonging.

During the Reporting Period, the Group had a total of 510 employees across Hong Kong and the PRC. The breakdown of the workforce by different categories are shown as below:

EMPLOYMENT BREAKDOWN



Note 1: The calculation of turnover rate is shown below:
 Turnover rate = $L(x)/E(x) * 100\%$
 L(x) = Employees leaving employment during the Reporting Period
 E(x) = Total number of employees at the end of the Reporting Period



Figure 1: Christmas Party



Figure 2: First day of Chinese New Year



Figure 3: Red packet for work resumption after Chinese New Year



Figure 4: Women's Day benefit distribution



Figure 5: Women's Movement History Museum visit



Figure 6: Reciprocal banquet



Figure 7: Communist Party of China ideological film screening



Figure 8: Community service activity

9.2. Protecting our staff

The Group is committed to establishing a work environment where employees can maximise their physical and mental qualities. The Group has implemented multiple safety policies to maintain a safe working environment and minimise potential occupational hazards. The Group provides education and training to help employees implement important safety measures, cultivate a safety culture and adopt new safety technologies. Regarding physical protection, the Group requires frontline workers to wear personal protective equipment and offers annual free health check-ups. Our Health and Safety Team conducts routine safety inspections to ensure that all employees operate in a safe manner and are equipped with the appropriate personal protective equipment.

The Group has complied with all local laws and regulations relating to workplace hazard prevention, occupational health and safety. As a result of these strict safety measures, the Group has achieved and maintained 0 fatalities due to work-related accidents for the past three years, including the Reporting Period, while 65 lost days due to work-related accidents in the Reporting Period were recorded.



Figure 9: Employee body checkup



Figure 10: Summer coolness wellness package distribution



Figure 11: Safety production training

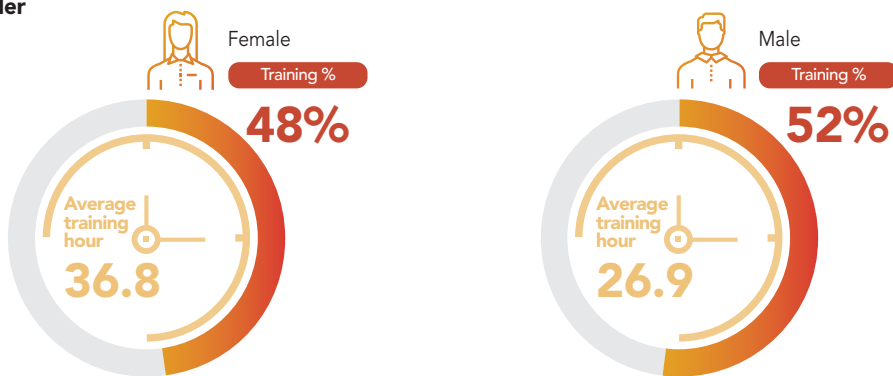
9.3. Nurturing our people

The Group is committed to employing staff with sufficient skills, knowledge, professional qualifications, experience and judgement to carry out their duties responsibly and has developed a training policy as well as offered specialised training programmes to our team based on their job nature and personal interest. For instance, the Group offers GMP training to the quality assurance and production team and provides product training to the sales and marketing team. Besides, the Group provides external training subsidies to our employees for them to pursue their personal development or enhance their expertise. The Human Resources Department conducts annual performance reviews of each employee and reviews training programmes on an annual basis.

The Group has provided a total of 3,900 training hours to our employees during the Reporting Period and the detail of the trainings is shown as below:

TRAINING AND DEVELOPMENT

By Gender



By Employee Category

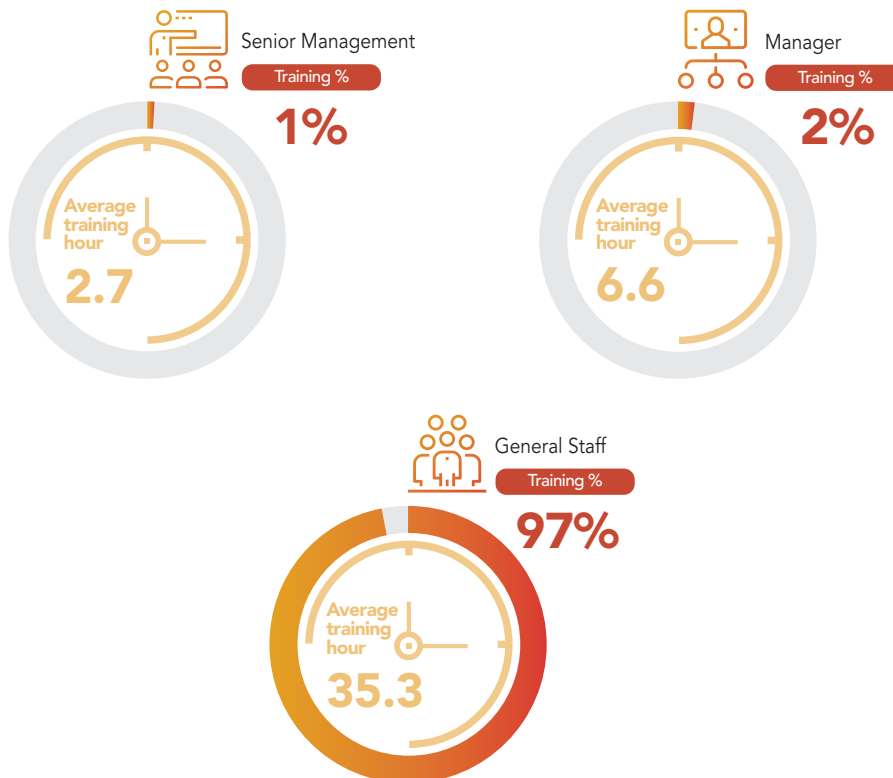




Figure 12: Internal training



Figure 13: Internal training

10. CARING FOR OUR COMMUNITY

In response towards the Group's mission of promoting longer, healthier and happier lives, we have established a Community Investment Policy which enables us to achieve our community goals. PuraPharm strives to make positive impacts in the following areas:

- Support health and wellness across local and overseas communities, hospital groups, healthcare organisations and educational institutions;
- Promote a better understanding of Chinese medicine among the general public; and
- Support local students to excel in their education and career development in the Chinese medical field.

During the Reporting Period, PuraPharm has contributed 12 hours and RMB61,410 (equivalent to around HKD66,800) in the above areas. The highlight of our community initiatives/activities in the Reporting Period includes:

Photo

Description



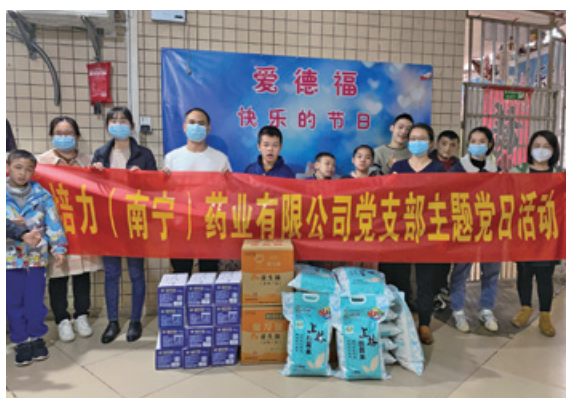
TWGHs Flag Day Selling

PuraPharm remains committed to backing TWGH's endeavours in medical services and education. Alongside monetary contributions, the company fosters employee and client involvement by encouraging participation in TWGH's flag-selling event and placing donation boxes in our clinics and offices. Our dedication to advancing public health and well-being has been recognised with Certificates of Appreciation during TWGH's Flag Day in 2023.



Spring Festival Assistance for Employees in Need

The Party Branch and Labour Union of PuraPharm jointly organised a heartwarming initiative to provide assistance to employees who were hospitalised due to illness during the Reporting Period. This effort during Spring Festival aimed to offer emotional support, encouragement, and solidarity to those facing health challenges, ensuring they felt cared for and valued by their colleagues and PuraPharm as a whole.



Donation of essential living supplies to a special needs school

The Party Branch of PuraPharm has organised a donation drive to donate essential living supplies such as rice, cooking oil, and milk to children with autism, disabilities, and intellectual challenges. This gesture aims to enhance the well-being and comfort of these individuals, reflecting PuraPharm's commitment to making a positive difference in the lives of those in need.

Photo

Description



Donation of anti-epidemic materials to Debao County

The Ethnic and Religious Affairs Commission of the Autonomous Region proactively engaged designated production enterprises specialising in medicine to contribute epidemic prevention supplies to Debao County as part of the “13th Five-Year Plan” initiative addressing ethnic-specific needs. Responding to the government’s call, PuraPharm took part in the on-site donation event in Debao County on March 3, 2023, where we presented a donation of anti-epidemic materials valued at RMB57,600 (equivalent to around HKD62,660) on behalf of PuraPharm.



Fundraising for Red Scarf Initiative for Youth Development

PuraPharm has constantly attached great importance to caring for and nurturing the next generation. Therefore, we have established the “Nanning Red Scarf Fund”, which will be used to support the socialisation of Young Pioneers, care for children in difficult circumstances and to aid in the construction of Young Pioneer organisations in rural schools.

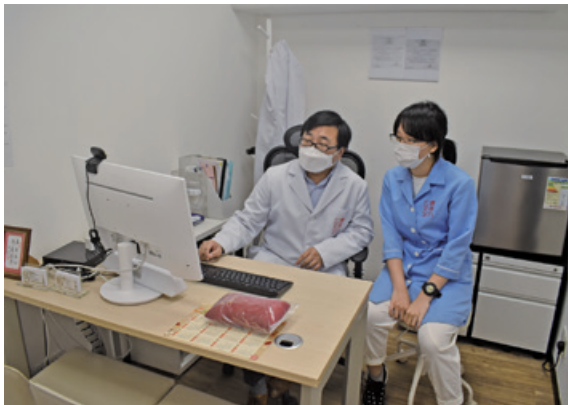


Leyong Village donation

PuraPharm has donated a total of RMB1,000 (equivalent to around HKD1,080) to Leyong Village. Through this donation effort, we aim to make a meaningful impact on the lives of Leyong Village residents by providing essential resources and support where it’s needed most.

Photo

Description



Child Development Initiative Alliance (CDIA) – Youth Work Explorer Program

PuraPharm has consistently prioritised the nurturing and support of the younger generation. As such, the Group remained actively engaged in the CDIA-Youth Work Explorer Program during the Reporting Period. The objective was to assist youths in developing essential soft skills within a professional setting.



11. SHARING OUR ACHIEVEMENT

Through the collaborative contributions of our employees and the support from the business partners, PuraPharm has garnered an extensive array of recognitions and awards throughout the Reporting Period.

| Name | Issuer |
|--------------------------------|------------------------|
| InnoESG Prize 2023 – ESG Award | SocietyNext Foundation |



4 Consecutive A Enterprise for Tax Credit from 2019 to 2022

Nanning High-tech Industrial Development Zone Tax Bureau of the State Administration of Taxation



Advanced Collective in Talent Work of Danzhai County

Danzhai County Committee of the Communist Party of China & Danzhai County People's Town Government



12. LOOKING FORWARD

Dedicated to mankind's pursuit of a longer, healthier and happier life, PuraPharm remains dedicated to delivering quality products and services to our community through continuous innovation and progress in herbal medicine. In the meantime, PuraPharm is intensifying our endeavours to achieve our environmental goals and reduce our carbon footprint. The Group looks forward to shaping a healthy and sustainable environment, enabling everyone to live longer, healthier and happier.

13. ESG INDEX

| Aspect | KPI | Description | Statement/Section | Page No. |
|----------------------|---------------------------|--|---|----------|
| A. Environmental | | | | |
| Aspect A1: EMISSIONS | | | | |
| A1 | <i>General disclosure</i> | Information on: (a) the policies; and (b) compliance. | (a) 8 Protecting Our Planet (b) The Group was not aware of any material non-compliance against relevant laws and regulations such as Air Pollution Control Ordinance of Hong Kong and Environmental Protection Law of the PRC during the Reporting Period. | 66 |
| | A1.1 | The types of emissions and respective emissions data. | 8.2 Greenhouse Gas (GHG) Emissions and Energy Consumption As the primary energy source of the Group's operation is purchased electricity, air pollutant emission such as NOx and SOx is not material to the Group. | 66 |
| | A1.2 | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 8.2 Greenhouse Gas (GHG) Emissions and Energy Consumption | 68 |
| | A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 8.4 Waste Management | 72 |
| | A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 8.4 Waste Management | 72 |
| | A1.5 | Description of emissions target(s) set and steps taken to achieve them. | 8.2 Greenhouse Gas (GHG) Emissions and Energy Consumption | 66-67 |
| | A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | 8.4 Waste Management | 70-71 |

| Aspect | KPI | Description | Statement/Section | Page No. |
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| | A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | 8.2 Greenhouse Gas (GHG) Emissions and Energy Consumption | 68 |
| | A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | 8.3 Water & Wastewater Management | 70 |
| | A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | 8.2 Greenhouse Gas (GHG) Emissions and Energy Consumption | 66 |
| | A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | 8.3 Water & Wastewater Management | 69 |
| | A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | 8.4 Waste Management | 72 |
| Aspect A3: THE ENVIRONMENT AND NATURAL RESOURCES | | | | |
| A3 | <i>General disclosure</i> | Policies | 8 Protecting Our Planet | 66, 69-70 |
| | A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | 8 Protecting Our Planet | 66, 69-70 |

| Aspect | KPI | Description | Statement/Section | Page No. |
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| A4 | <i>General disclosure</i> | Policies | 8.1 Climate Change | 66 |
| | A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | 8.1 Climate Change | 66 |
| B. SOCIAL | | | | |
| Aspect B1: EMPLOYMENT | | | | |
| B1 | <i>General disclosure</i> | Information on: (a) the policies; and (b) compliance. | (a) 9 Building Our Talented Team (b) The Group was not aware of any material non-compliance against relevant laws and regulations such as Employment Ordinance of Hong Kong and Labour Law of the PRC during the Reporting Period. | 72 |
| | B1.1 | Total workforce by gender, employment type (for example, full- or parttime), age group and geographical region. | 9.1 Attracting And Retaining Talents | 73 |
| | B1.2 | Employee turnover rate by gender, age group and geographical region. | 9.1 Attracting And Retaining Talents | 73 |
| Aspect B2: HEALTH AND SAFETY | | | | |
| B2 | <i>General disclosure</i> | Information on: (a) the policies; and (b) compliance. | (a) 9.2 Protecting Our Staff (b) The Group was not aware of any material non-compliance against relevant laws and regulations such as Occupational Safety and Health of Hong Kong and Production Safety Law of the PRC during the Reporting Period. | 78 |
| | B2.1 | Number and rate of work-related fatalities occurred in each of the past three years including the reporting period. | 9.2 Protecting Our Staff | 78 |
| | B2.2 | Lost days due to work injury. | 9.2 Protecting Our Staff | 78 |
| | B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | 9.2 Protecting Our Staff | 78 |

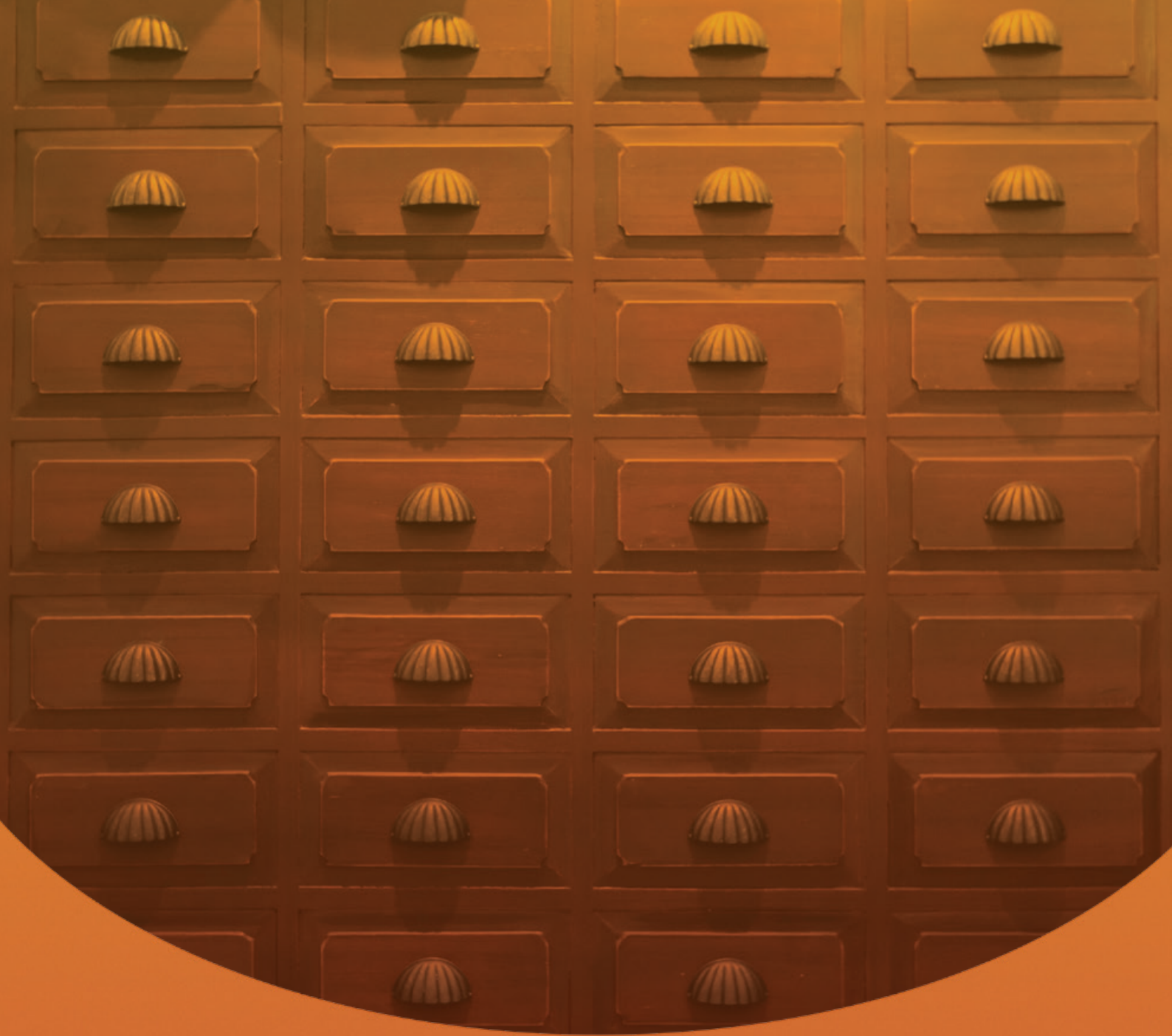
| Aspect | KPI | Description | Statement/Section | Page No. |
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| B3 | <i>General disclosure</i> | Policies | 9.3 Nurturing Our People | 79 |
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| Aspect B4: LABOUR STANDARDS | | | | |
| B4 | <i>General disclosure</i> | Information on: (a) the policies; and (b) compliance. | (a) 9 Building Our Talented Team (b) The Group was not aware of any material non-compliance against relevant laws and regulations such as Employment Ordinance of Hong Kong and Labour Law of the PRC during the Reporting Period. | 72 |
| | B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 9.1 Attracting And Retaining Talents | 72 |
| | B4.2 | Description of steps taken to eliminate such practices when discovered. | 9.1 Attracting And Retaining Talents | 72 |

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| | B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | 7.1 Sustainable Supply Chains | 61-62 |
| | B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | 7.1 Sustainable Supply Chains | 61-62 |
| | B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | 7.1 Sustainable Supply Chains | 61-62 |

| Aspect | KPI | Description | Statement/Section | Page No. |
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| Aspect B6: PRODUCT RESPONSIBILITY | | | | |
| B6 | <i>General disclosure</i> | Information on: (a) the policies; and (b) compliance. | (a) 7.2 Sustainable Products (b) The Group was not aware of any material non-compliance against relevant laws and regulations such as Chinese Medicine Ordinance of Hong Kong and Advertising Law of the PRC during the Reporting Period. | 63 |
| | B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | 7.2 Sustainable Products | 65 |
| | B6.2 | Number of products and service related complaints received and how they are dealt with. | 7.2 Sustainable Products | 65 |
| | B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 7.2 Sustainable Products | 65 |
| | B6.4 | Description of quality assurance process and recall procedures. | 7.2 Sustainable Products | 65 |
| | B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | 7.2 Sustainable Products | 65 |

| Aspect | KPI | Description | Statement/Section | Page No. |
|----------------------------|---------------------------|--|---|----------|
| Aspect B7: ANTI-CORRUPTION | | | | |
| B7 | <i>General disclosure</i> | Information on: (a) the policies; and (b) compliance. | (a) 7.1 Sustainable Supply Chains (b) The Group was not aware of any material non-compliance against relevant laws and regulations such as Prevention of Bribery Ordinance of Hong Kong and Criminal Law of the PRC during the Reporting Period. | 63 |
| | B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | 7.1 Sustainable Supply Chains | 63 |
| | B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | 7.1 Sustainable Supply Chains | 63 |
| | B7.3 | Description of anti-corruption training provided to directors and staff. | 7.1 Sustainable Supply Chains | 63 |

| Aspect | KPI | Description | Statement/Section | Page No. |
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| | B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | 10 Caring Our Community | 82-85 |
| | B8.2 | Resources contributed (e.g. money or time) to the focus area. | 10 Caring Our Community | 82 |



Corporate Governance Report

PuraPharm Corporation Limited
– 2023 Annual Report



Corporate Governance Report

PuraPharm Corporation Limited
– 2023 Annual Report

The Board is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 December 2023.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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



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

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

A. THE BOARD OF DIRECTORS

1. Responsibilities

The Board is responsible for the leadership and control of the Group and is responsible for promoting the success of the Group by directing and supervising its affairs. The Board has established Board committees and has delegated to these Board committees' various responsibilities as set out in their respective terms of reference which are published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company.

All Directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the best interests of the Company and its Shareholders at all times.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and the Company for the year ended 31 December 2023.

2. Delegation of Management Function

The Board is responsible for all major matters of the Group including the approval and monitoring of all major policies of the Group, overall strategies, internal control and risk management systems, notifiable and connected transactions, nomination of directors and company secretary and other significant financial and operational matters.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. Upon reasonable request, all Directors can seek independent professional advice in appropriate circumstances, at the Company's expense.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensure that Board procedures and all applicable rules and regulations are followed.

The day-to-day management, administration and operation of the Group are delegated to the senior management under the leadership of the Executive Directors. The delegated functions are periodically reviewed. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance, internal controls, communication with shareholders, delegation of authority and corporate governance.

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

Throughout the year ended 31 December 2023, in accordance with code provision D.1.2 of the Code, all Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Pursuant to code provision E.1.5 of the Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2023 is set out below:

| Remuneration band (HK\$) | No. of individual |
|--------------------------|-------------------|
| Nil-1,000,000 | 1 |
| 1,000,001-2,000,000 | 2 |
| 2,000,001-3,000,000 | 1 |
| 3,000,001-4,000,000 | 1 |
| Over 4,000,001 | 1 |

Details of the remuneration of each Director for the year ended 31 December 2023 are set out in note 8 to the consolidated financial statements in this annual report.

3. Board Composition

As at 31 December 2023, the Board consisted of six Directors, including two Executive Directors, one Non-executive Director and three Independent non-executive Directors. Biographies of the Directors are set out on pages 8 to 11 of this annual report.

During the year ended 31 December 2023, the Board comprised the following Directors:

| | |
|--|--|
| <i>Executive Directors</i> | Mr. Chan Yu Ling, Abraham <i>(Chairman and Chief Executive Officer)</i> Ms. Man Yee Wai, Viola Dr. Norimoto Hisayoshi <i>(retired on 20 November 2023)</i> |
| <i>Non-executive Director</i> | Mr. Leung Stephen Kwok Keung <i>(appointed on 14 June 2023)</i> |
| <i>Independent non-executive Directors</i> | Mr. Ho Kwok Wah, George Dr. Leung Lim Kin, Simon Prof. Tsui Lap Chee |

Save as disclosed in this annual report, to the best knowledge of the Company, there is no financial, business, family, or other material relationships among members of the Board.

During the Review Period, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent non-executive Directors representing at least one-third of the Board and at least one Independent non-executive Director possesses appropriate professional qualifications, or accounting or related financial management expertise which is in compliance with Rules 3.10 and 3.10A of the Listing Rules.

The Company has received written annual confirmation from each of the Independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. Upon the recommendation of the Nomination Committee of the Company, the Company considers all Independent non-executive Directors to be independent in accordance with the independence requirements set out in the Listing Rules.

4. Appointment and Re-election of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association (the "Articles"). Each of the Executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the Independent non-executive Directors and non-executive Director has signed an appointment letter with the Company for a term of three years unless terminated by a written notice not less than 30 days' prior to the termination served by either party on the other. The appointments are subject to the provisions of retirement and rotation of directors under the Articles.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles, all Directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for election or re-election by shareholders at the first general meeting after appointment.

5. Induction and Continuing Development for Directors

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Pursuant with code provision C.1.4 of the Code, the Directors have been continually provided with information related to the developments in the legal and regulatory regime and the business and market environments to facilitate the execution of their responsibilities during the year ended 31 December 2023. Continuing briefing and professional development for Directors were arranged by the Group and its legal advisers.

6. Directors Liability Insurance

The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2023, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing their duties. The Company estimates that in the reasonably foreseeable future, there is little risk that there would be any event for which any Director shall take responsibility. Notwithstanding, the Company has arranged for appropriate directors and officers liability insurance in respect of legal action against the Directors.

7. Board Meetings and General Meetings

The Board discusses the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. The attendance records of each Director at the Board meetings and the annual general meeting held on 30 May 2023 (the "AGM") (whether in person or by means of electronic communication) held during the year ended 31 December 2023 are set out below:

| Name of Director | Board meeting | AGM |
|---------------------------------------|---------------|-----|
| Mr. Chan Yu Ling, Abraham | 4/4 | 1/1 |
| Ms. Man Yee Wai, Viola | 4/4 | 1/1 |
| Dr. Norimoto Hisayoshi (Note 1) | 3/3 | 1/1 |
| Mr. Leung Stephen Kwok Keung (Note 2) | 2/2 | N/A |
| Mr. Ho Kwok Wah, George | 4/4 | 1/1 |
| Dr. Leung Lim Kin, Simon | 3/4 | 1/1 |
| Prof. Tsui Lap Chee | 4/4 | 1/1 |

Note 1: Dr. Norimoto Hisayoshi retired on 20 November 2023. Up to the date of his retirement, three board meetings were held.

Note 2: Mr. Leung Stephen Kwok Keung was appointed on 14 June 2023. From his appointment and up to 31 December 2023, two board meetings were held.

Practices and conduct of meetings

Annual meeting schedules and draft agendas of each meeting are made available to Directors in advance. Arrangements have also in place to ensure Directors are given an opportunity to include matters in the agenda.

Notices of regular Board meetings and committee meetings are served to all Directors at least 14 days before the meetings. For other Board meetings, reasonable notice should be given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The chief financial officer of the Company and his delegate are responsible for taking and keeping minutes of all Board meetings and committee meetings, which record sufficient details of the matters considered by the Directors and decisions made, including any proposal raised by the Directors or dissenting views expressed. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Articles contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

8. Independence Views to the Board

The Board recognises Board independence is critical to good corporate governance. The Company has put in place the mechanisms to ensure a strong independence element on the Board, which are summarised below:

Board Composition

The Board endeavours to ensure the appointment of at least three independent non-executive Directors and at least one-third of the Board members being independent non-executive Directors (or such higher threshold as may be required by the Listing Rules from time to time).

Apart from complying with the requirements prescribed by the Listing Rules as to the composition of certain Board committees, independent non-executive Directors will be appointed to other Board committees as far as practicable to ensure independent views are available.

Independence Assessment

The Nomination Committee shall strictly adhere to the nomination policy and the independence assessment criteria as set out in the Listing Rules with regard to the nomination and appointment of independent non-executive Directors.

Each independent non-executive Director is also required to inform the Company as soon as practicable if there is any change in his own personal particulars that may materially affect his independence.

The Nomination Committee is mandated to assess annually the independence of all independent non-executive Directors by reference to the independence criteria as set out in the Listing Rules to ensure that they can continually exercise independent judgement.

Decision Making

All Directors (including independent non-executive Directors) are entitled to seek further information and documentation from the management on the matters to be discussed at Board meetings. They can also seek assistance from the Company's company secretary and, where necessary, independent advice from external professional advisers at the Company's expense.

All Directors (including independent non-executive Directors) shall not vote or be counted in the quorum on any board resolution approving any contract or arrangement in which such Director or any of his close associates has a material interest.

The Board had made an annual review on the implementation of the abovementioned mechanisms and was of the view that the abovementioned mechanisms had been satisfactorily implemented.

B. BOARD COMMITTEES

The Board has established five committees, namely, the Remuneration Committee, Audit Committee, Nomination Committee, Scientific Advisory Committee and Environmental, Social and Governance Committee, for overseeing particular aspects of the Group's affairs. All of these five committees of the Company are established with defined written terms of reference. The majority of the members of the Remuneration Committee, Audit Committee and Nomination Committee are Independent non-executive Directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

1. Remuneration Committee

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

Dr. Leung Lim Kin, Simon (*Chairman,
Independent non-executive Director*)
Mr. Ho Kwok Wah, George
(*Independent non-executive Director*)
Prof. Tsui Lap Chee
(*Independent non-executive Director*)

The primary roles and functions of the Remuneration Committee include, but not limited to: (i) making recommendations to the Directors on the remuneration policy of the Group and structure of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives and ensuring that it is consistent with contractual terms and are reasonable and appropriate; and (iii) determining the terms of the remuneration package of the Directors and senior management with reference to their time commitment and responsibilities, employment condition in the Group, and comparable companies.

During the Review Period, the Remuneration Committee reviewed and made recommendations to the Board to determine remuneration package for Directors and senior management of the Group. The attendance records of the Remuneration Committee meetings held during the Review Period are set out below:

| Name of Director | Meeting attended/ Total |
|---|----------------------------|
| Dr. Leung Lim Kin, Simon (<i>Chairman</i>) | 2/2 |
| Mr. Ho Kwok Wah, George | 2/2 |
| Prof. Tsui Lap Chee | 2/2 |

The Remuneration Policy of Directors

Quality and committed staff are valuable assets contributing to the Group's success. To ensure the ability to attract and retain talents, the Group's remuneration policy of Directors is built upon the principles of providing equitable and market-competitive remuneration package that support the performance culture and enable the achievement of strategic business goals. The Group's remuneration policy of Directors is, therefore, aiming at providing competitive but not excessive remuneration package to the Directors.

The Directors' remuneration comprises fixed salary or service fee and variable components (such as bonus and share options), which is benchmarked against companies of comparable business or scale with reference to a mix of factors such as the prevailing market condition, the Company's performance and the qualifications, skills, experience and educational background of the Directors.

The Directors' remuneration is reviewed annually and are subject to shareholders' approval.

2. Audit Committee

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

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

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

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

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

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

During the Review Period, the Audit Committee has, among others, considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management; reviewed the interim results for the six months ended 30 June 2023 and the annual financial results for the year ended 31 December 2023 and considered that the annual results were in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made. The Audit Committee had also reviewed the effectiveness and performance of the Group's risk management and internal control systems and internal audit plan.

The attendance records of the Audit Committee meetings held during the Review Period are set out below:

| Name of Director | Meeting attended/ Total |
|--|----------------------------|
| Mr. Ho Kwok Wah, George <i>(Chairman)</i> | 2/2 |
| Dr. Leung Lim Kin, Simon | 2/2 |
| Prof. Tsui Lap Chee | 2/2 |

3. Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with the Listing Rules and the Code. The Nomination Committee comprises three members, the majority of whom are Independent non-executive Directors:

Mr. Chan Yu Ling, Abraham
(Chairman, Executive Director)
Mr. Ho Kwok Wah, George
(Independent non-executive Director)
Prof. Tsui Lap Chee
(Independent Non-executive Director)

The primary roles and functions of the Nomination Committee include, but not limited to: (i) reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors; (ii) monitoring the appointment and succession planning of Directors; and (iii) assessing the independence of Independent non-executive Directors.

During the Review Period, the Nomination Committee conducted the annual review of the structure, size and composition of the Board; considered the appointment of new Director; assessed independence of Independent non-executive Directors; and reviewed the Board Diversity Policy.

The attendance records of the Nomination Committee meetings held during the Review Period are set out below:

| Name of Director | Meeting attended/ Total |
|--|----------------------------|
| Mr. Chan Yu Ling, Abraham <i>(Chairman)</i> | 2/2 |
| Mr. Ho Kwok Wah, George | 2/2 |
| Prof. Tsui Lap Chee | 2/2 |

Where vacancies on the Board arise, the Nomination Committee will carry out the selection process in accordance with the nomination policy of the Nomination Committee and the board diversity policy of the Company by making reference to a range of diversity perspectives.

During the Reporting Period, the Nomination Committee reviewed and considered the skills, experience, qualifications, education background of Mr. Leung Stephen Kwok Keung in relation to his appointment as a non-executive Director on 14 June 2023. The Nomination Committee and the Board formed the view that, with Mr. Leung extensive experience in pharmaceutical business, Mr. Leung would be a valuable addition to the Board and contributed to the diversity of the Board.

Nomination Policy

The Company has adopted a nomination policy (the "Nomination Policy") which sets out the approach and procedures the Board adopts for the nomination and selection of Directors of the Company, including the appointment of additional Directors, replacement of Directors, and re-election of Directors. The Nomination Committee has been delegated with the overall responsibility for implementation, monitoring and periodic review of the policy, and the summary of which is set out below:

- review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assess the independence of Independent non-executive Directors having regard to the requirements under the Listing Rules; and
- make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors in particular the Chairman and Chief Executive Officer of the Company

Nomination Criteria

In evaluating and selecting any candidate for the directorship, the following criteria would be considered by the Nomination Committee and the Board:

- the candidate's character and integrity;
- the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;

- for Independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
 - any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
 - willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
 - such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.
- ii. Upon compilation and interview of the list of potential candidates, the Nomination Committee will shortlist candidates for consideration by the Nomination Committee and/or the Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable Director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

Nomination Procedures

The Company has put in place the following Director nomination procedures:

Appointment of New and Replacement Directors

- i. If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable Director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.
- ii. Where a retiring Director, being eligible, offers himself for re-election, the Nomination Committee and/or the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.
- ii. Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the company secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

Board Diversity Policy

The Board Diversity Policy (the “Board Diversity Policy”) was adopted by the Company in June 2015. The Policy aims to set out the basic principles to be followed to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. In reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, race, language, cultural and educational background, industry experience and professional experience that would enable the Board to discharge its duties and responsibilities effectively, support good decision making in view of core business and strategy of the Group, and support succession planning and development of the Board. The Nomination Committee will review the Policy and the measurable objectives at least annually, and as appropriate, to ensure the continued effectiveness of the Board. The Company aims to maintain an appropriate balance of diversity perspectives of the Board in supporting the attainment of its strategic objectives and its sustainable development.

The Board will take opportunities to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for board appointments. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders’ expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender parity. The Board also aspires to having an appropriate proportion of Directors who have direct experience in the Group’s core markets, with different ethnic backgrounds, and reflecting the Group’s strategy.

The Company is conscious of maintaining Board diversity with an appropriate level of female members on the Board, which shall not be less than one female member with immediate effect and may further increase in the next five years, in which case the Board considered gender diversity has been archived.

As at the date of this Annual Report, the Board comprises six Directors, one of whom is female. The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience appropriate to the requirements of its business, and allowed opinion from different gender and background be heard and discussed, and board diversity (including gender diversity) has been achieved. The Board will continue review its structure to ensure it suits the requirement of its business and support the development of the Group. If situation evolves and the Board determines that an additional or replacement Director is required to achieve gender diversity or to suits the business requirements and support the development of the Group, the Company will deploy multiple channels for identifying suitable director candidates, including without limitation, referral from management, shareholders and advisors of the Company, or internal promotion, with regarding to the range of diversity perspectives set forth in the Board Diversity Policy.

Review of the Board Diversity Policy

The Board, upon the recommendation made by the Nomination Committee, had reviewed the implementation and effectiveness of the Board Diversity Policy and was of the view that the Board Diversity Policy and its implementation was sufficient and effective.

The Nominations Committee will review the implementation of the Board Diversity Policy at least annually and make recommendation on any proposed changes to the Board for the Board's review and approval to ensure its continued appropriateness and effectiveness.

Workforce Diversity

The Group strictly adheres to fair and appropriate employment practices and labour standards. With an anti-discriminatory and equal-opportunity policy in place, the Group provides job applicant and employees with equal opportunities of employment and promotion, and prohibits all forms of discrimination on gender, religion, race, disability or age.

As at 31 December 2023, the Group had a total of 660 staff members (including members of the senior management but excluding Directors). The gender composition of the staff members (including members of the senior management but excluding Directors) was approximately 40% male staff members and 60% female staff members.

The Board considered that gender diversity of the workforce of the Group has been well maintained during the Year. As such, the plan for the Group in terms of gender diversity in workforce is to maintain the balance of gender diversity in the foreseeable future.

4. Scientific Advisory Committee

The Company has established the Scientific Advisory Committee with written terms of reference in June 2015. As at 31 December 2023, none of the members of Scientific Advisory Committee are Director of the Company:

Prof. Bruce Robinson (*Chairman*)
Prof. Rudolf Bauer
Prof. Chi Ming Che
Prof. Liang Song Ming
Prof. Piu Chan

The primary roles and functions of the Scientific Advisory Committee include, but not limited to: (i) advising the Board on the implementation of the scientific research plan of the Group; (ii) making recommendations to the Board on the key established project; and (iii) making recommendations to the Board on the strategic development of the Company and advise the direction. The members of the Scientific Advisory Committee shall meet at least once every year.

During the Review Period, one meeting was held by the Scientific Advisory Committee and all members attended the meeting.

5. Environmental, Social and Governance Committee

The Company has established the Environmental, Social and Governance Committee in August 2021. As at the date of this annual report, the Environmental, Social and Governance Committee is chaired by Dr. Norimoto Hisayoshi with three other members of the Company.

Dr. Norimoto Hisayoshi (*Chairman*)
Mr. Lam Wing Hung
Mr. Kwong Kar Fai
Ms. Zhou Jian

The primary roles and functions of the Environmental, Social and Governance Committee include, but not limited to: (i) provide oversight on behalf of and to the Board in relation to the Group's Environmental, Social and Governance ("ESG") strategy and activities; (ii) review the ESG policies and initiatives of the Group ensuring they remain effective and up to date; (iii) ensure compliance with legal and regulatory requirements including corporate governance principles and industry standards, applicable to the Company and (iv) ensure all stakeholders receive appropriate information about the Group's ESG activities.

During the Review Period, one meeting was held by the Environmental, Social and Governance Committee and all members attended the meeting.

C. MODEL CODE FOR SECURITIES

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

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines"), governing securities transactions by employees (including directors or employees of a subsidiary or holding company of the Company) who are likely to possess inside information of the Company and/or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company. In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

D. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 142 to 145.

For the year ended 31 December 2023, the fees paid/payable to Ernst & Young for the audit service were HK\$2,550,000.

Fees paid/payable to Ernst & Young for non-audit services provided to the Group for the year ended 31 December 2023 were HK\$680,000. The non-audit services were mainly for reviewing of the Group's interim results.

Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements for the financial year, which give a true and fair view of the financial position of the Company and the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2023, the Directors have selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared disclosure of the financial position of the Group with reasonable accuracy at any time.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

E. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing the effectiveness of the Group's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The Group's internal control system includes a well-established organisational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to the individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time.

The Group had the internal audit function, details of which are stated in the Risk Management Report in this annual report.

During the year ended 31 December 2023, the Audit Committee, which was delegated by the Board, has reviewed and evaluated the effectiveness of the risk management and internal control system of the Group. The review has covered the financial reporting process and risk management aspects of the Group. Such review shall be conducted annually. Upon the recommendation of the Audit Committee, the Board believes that the existing internal control system is adequate and effective.

For further information in relation to the risk management and internal control system of the Group's, please refer to the Risk Management Report in this annual report.

F. INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make informed investment decisions.

The general meetings of the Company are expected to provide a forum for communication between the Board and the shareholders. The chairman of the Board, the chairmen of the Remuneration Committee, Audit Committee and Nomination Committee, or, in their absence, other members of the respective committees are available to answer questions at the general meetings.

The Shareholders' Communication Policy

The Company has adopted a shareholders' communication policy, details of which is summarised below:

Shareholders' Meetings

- The annual general meetings and other general meetings of the Company are the primary communication forum between the Company and the Shareholders. Shareholders are encouraged to participate in general meetings physically or to appoint proxies to attend and vote at such meetings for and on their behalf if they are unable to attend.
- Notices of the general meetings, related circulars and forms of proxy are provided within a prescribed time prior to the general meetings on Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.purapharm.com) and by post to the Shareholders.

- The Directors, in particular, the chairman of the Board committees or their delegates, appropriate senior executives and external auditor will attend the general meetings to answer the Shareholders' questions.
- The chairman of the general meetings will propose to vote the resolutions (except resolutions which relate purely to procedural or administrative matters) by poll in accordance with the Articles. Scrutineer will be appointed for the vote-taking at the general meetings and the voting results will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.purapharm.com) subsequent to the close of the general meetings.

Corporate Communications

- Pursuant to the new Rule 2.07 of the Listing Rules effective from 31 December 2023, the Company has adopted electronic dissemination of corporate communications, which include annual report, interim report, circular, notice of meeting, listing document and proxy form ("Corporate Communications"). Both the English and Chinese versions of all future Corporate Communications will be available electronically on the website of the Company at www.purapharm.com and the Stock Exchange website at www.hkexnews.hk in place of printed copies.
- If any Shareholders would like to receive the Corporate Communications in printed form, please complete and return the request form obtainable at the website of the Company at www.purapharm.com to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or send an email to purapharm.ecom@computershare.com.hk specifying your name, address and request to receive the Corporate Communications in printed form.

- Shareholders are encouraged to provide their up-to-date contact details (including electronic contact details) to the Hong Kong branch share registrar of the Company in order to facilitate timely and effective communications.

Company's Website

- The Company's website (www.purapharm.com) provides the Shareholders with corporate information on the Group. It also provides information on corporate governance of the Group and the compositions and functions of the Board and the committees of the Board.
- In addition to the "Investor Relations" section in which corporate communications of the Company are posted as soon as practicable following their release on the Stock Exchange's website (www.hkexnews.hk), press releases and newsletters issued by the Company from time to time are also available on the Company's website to facilitate communication between the Company, Shareholders and investment community.
- Information on the Company's website is updated on a regular basis.

Communication with the Company

- Shareholders may raise questions, request for publicly available information and provide comments and suggestions to the Directors and management of the Company. Such questions, requests, comments and suggestions can be addressed to the Company by post to Unit 201-207, 2/F, Wireless Centre, Phase One, Hong Kong Science Park, Tai Po, New Territories, Hong Kong, or by the following means:

Email address: info@purapharm.com
Telephone number: (852) 2840 1840
Fax number: (852) 2840 0778

The Company highly values the view and comment by the Shareholders' and relevant stakeholders to the Company and would invite the Shareholders' and relevant stakeholders to communicate with the Company by employing the abovementioned means. In view of the above shareholders' communication means and measures adopted by the Company, the Board is of the view that the shareholders' communication policy implemented during the Year was sufficient and effective.

G. SHAREHOLDER RIGHTS

The Board endeavored to ensure all the shareholders are treated equally and have their deserved rights. The Board has established the shareholders' communication policy to maintain an open and effective communication with the shareholders and to update the shareholders on relevant information on the Group's business in a timely manner.

To ensure the rights of all shareholders, separate resolutions are proposed at the general meeting on each substantial issue, including but not limited to connected transactions, substantial acquisitions and election of individual Director.

Shareholders may at any time send their enquiries to the Board in writing to the principal place of business of the Company which contact details are as follows:

Address: Unit 201-207, 2/F,
Wireless Centre, Phase One,
Hong Kong Science Park, Tai Po,
New Territories, Hong Kong

Email: info@purapharm.com

Tel: (852) 2840 1840

Fax: (852) 2840 0778

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication will be provided to shareholders in plain language and in both English and Chinese versions to facilitate shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

H. COMPANY SECRETARY

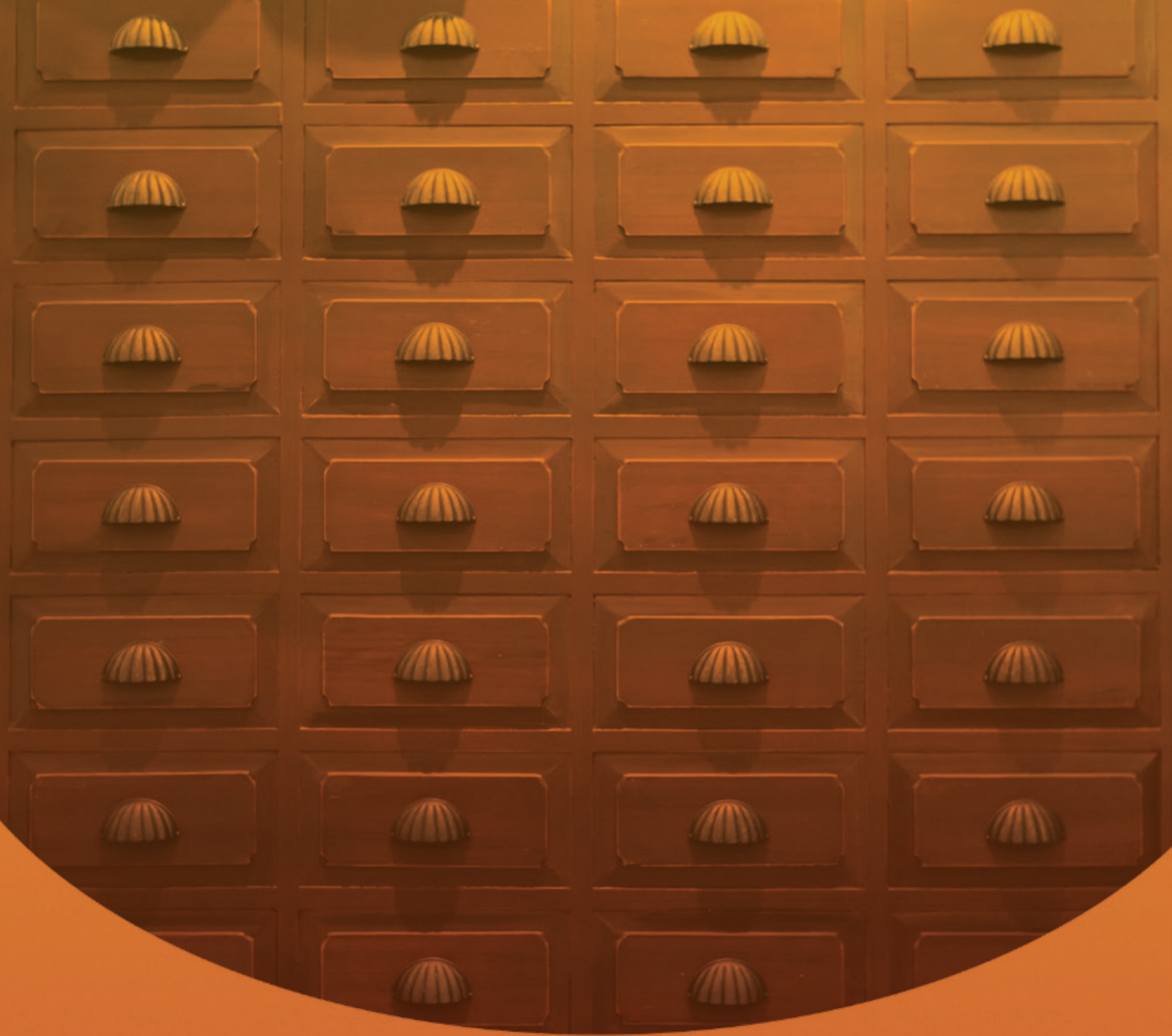
The Company engages an external service provider to provide company secretarial services and Ms. Chan Charmayne has been appointed as the Company Secretary of the Company on 31 July 2021. The primary contact person in the Company for Ms. Chan Charmayne in relation to corporate secretarial matters during the year was Mr. Cheung Kwun Kiu, our then financial controller, and currently is Mr. Lam Wing Hung, our chief financial officer. For the year ended 31 December 2023, Ms. Chan Charmayne had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training. Since Ms. Chan Charmayne is an external service provider, Mr. Chan Yu Ling, Abraham, the Chairman and Executive Director, would be the person at the Company whom Ms. Chan Charmayne can contact according to code provision C.6.1 of the Code.

I. STAFF DIVERSITY

The Group had a workforce of 662 employees as of 31 December 2023. Among them, approximately 60% of the workforce (including senior management) were female, and 0.1% of the Group's senior management positions (excluding Directors) were held by female. The Group considers the total diversity (including gender diversity) of the Group is balanced as a whole and intends to maintain a similar level of gender diversity of the overall workforce, and will continue to promote diversity through training programs, employee networks, equitable hiring and recruitment practices.

J. CONSTITUTIONAL DOCUMENT

During the Reporting Period, there has been no change to the Memorandum and Articles of Association of the Company.



Risk Management Report

PuraPharm Corporation Limited
– 2023 Annual Report





Risk Management Report

PuraPharm Corporation Limited
– 2023 Annual Report

RISK GOVERNANCE

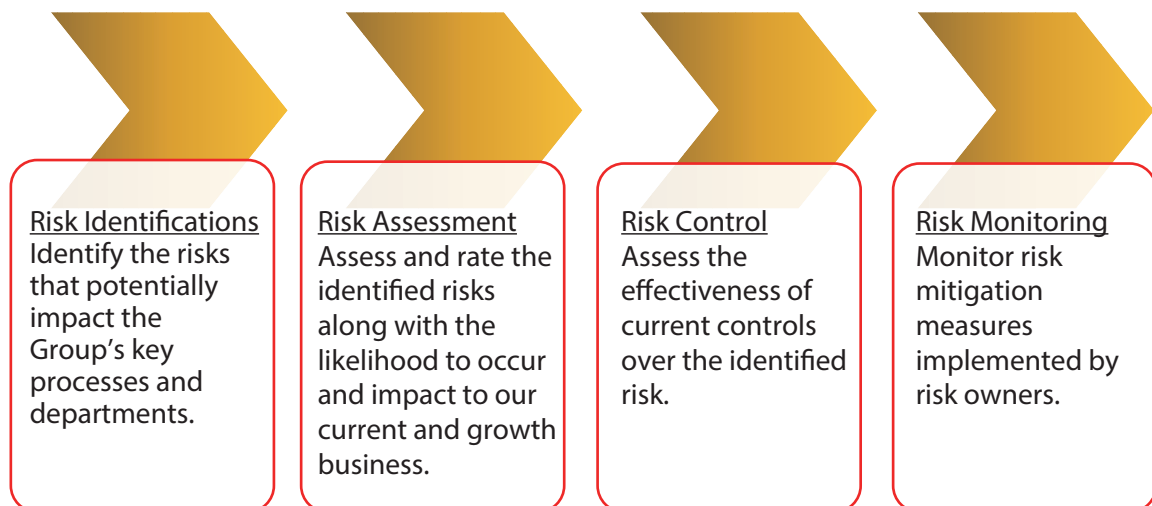
The Board has overall responsibility to the Group's risk management. The following highlights the key risk management measures and enhancements made by the Group during the year ended 31 December 2023:

- Management conducted annual Internal Control Self-Evaluation in 2023. Department heads confirmed that appropriate and effective internal control policies and procedures have been established and complied with.
- Various policies and procedures have been adopted with defined authority for effective segregation of duties, controls and risk management, and they are subjected to regular review.
- Whistleblowing Policy was adopted to facilitate internal reporting of any malpractice and unethical conduct within the Group without fear of reprisal and victimisation.
- Anti-Corruption Management Policy was adopted to set out minimum standards in recognising circumstances which may lead to or give the appearance of involving corruption or unethical business conduct, to help avoid conduct which is clearly prohibited, and to encourage employees in the Group to seek appropriate guidance promptly when needed.
- Continuous Disclosure and Communication Policy was adopted to provide employees with guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing restrictions.

- Comprehensive Risk Management Policy, which set out principle of risk management, objectives, risk management structure and workflow of annual risk management, was adopted. The policy aims to enhance the process of risk identification, prioritise identified risks and facilitate management to formulate business strategy and support decision making.
- Escalation and Risk Incident Reporting Policy was adopted to provide a framework for effective communication and action from appropriate stakeholders.
- The Internal Audit Department conducts independent reviews of the adequacy and effectiveness of the Group's internal control systems and reporting the review results regularly to the Board. Its work covers all material controls, including the financial, operational, IT, compliance and risk management controls.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

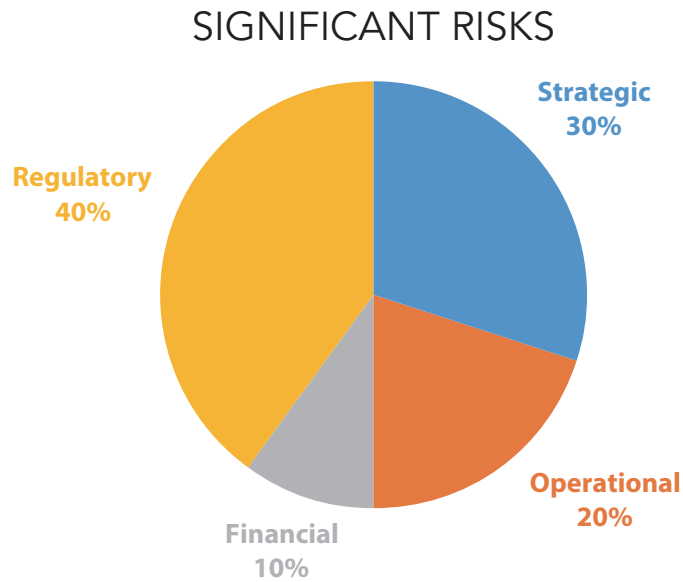
The Group manages the risks associated with its business and operations in pursuit of its strategic and business objectives. The Group has established its own Enterprise Risk Management ("ERM") framework which is designated to enhance risk management and to provide reasonable assurance against material misstatement or loss. The ERM framework provides a simple and effective management process to identify and review risks and corresponding mitigation measures across the Group and prioritise resources to those risks that arise. It also provides a clear view of the significant risks which the Group is facing and is used to support decision making.



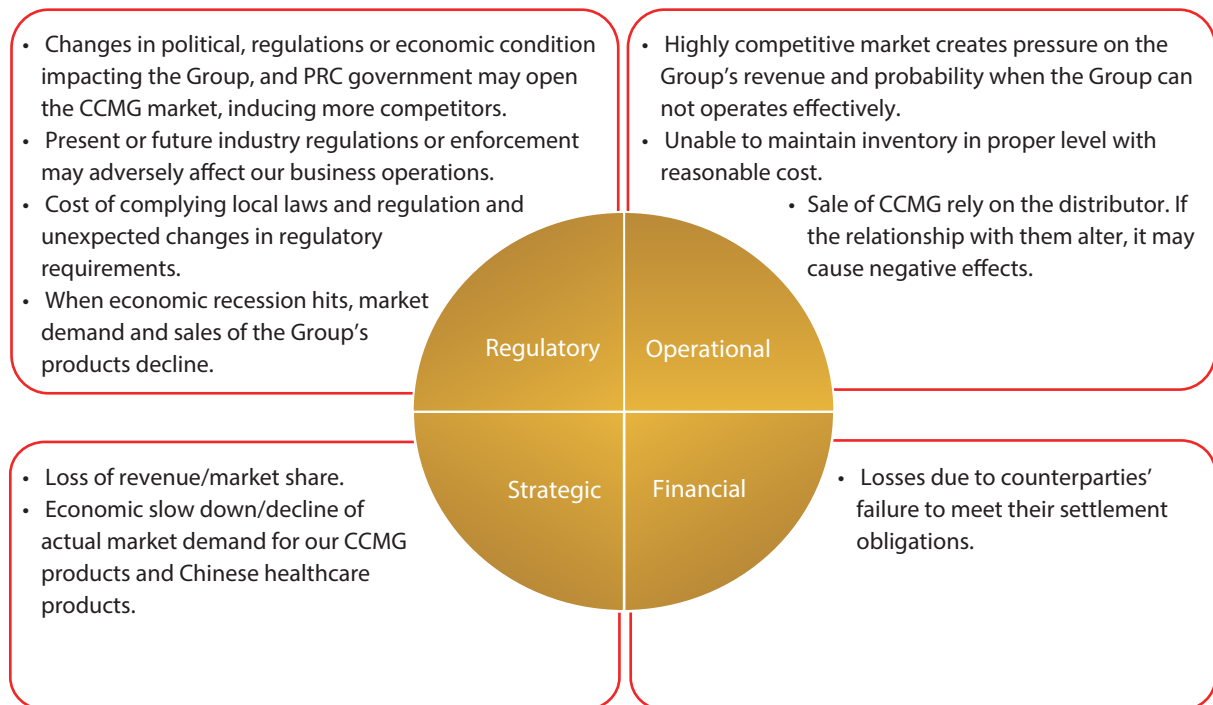
SIGNIFICANT RISKS

In 2023, the Board conducted an annual Group-wide risk assessment project based on the Group's ERM framework to review identified risks and assess the risks might arise from its businesses. The identified risks are rated by a combination of likelihood and consequences after considering current mitigation measures implemented regarding a risk matrix to get overall ratings. All identified risks are then ranked by the overall rating. The overall risk ratings reflect the required management attention and risk treatment effort. In the Group Risk Report, 4 categories of major risk types were identified and are illustrated in the diagram below.

The Group's Key Risk Exposures:



PuraPharm Key Risk Exposures:



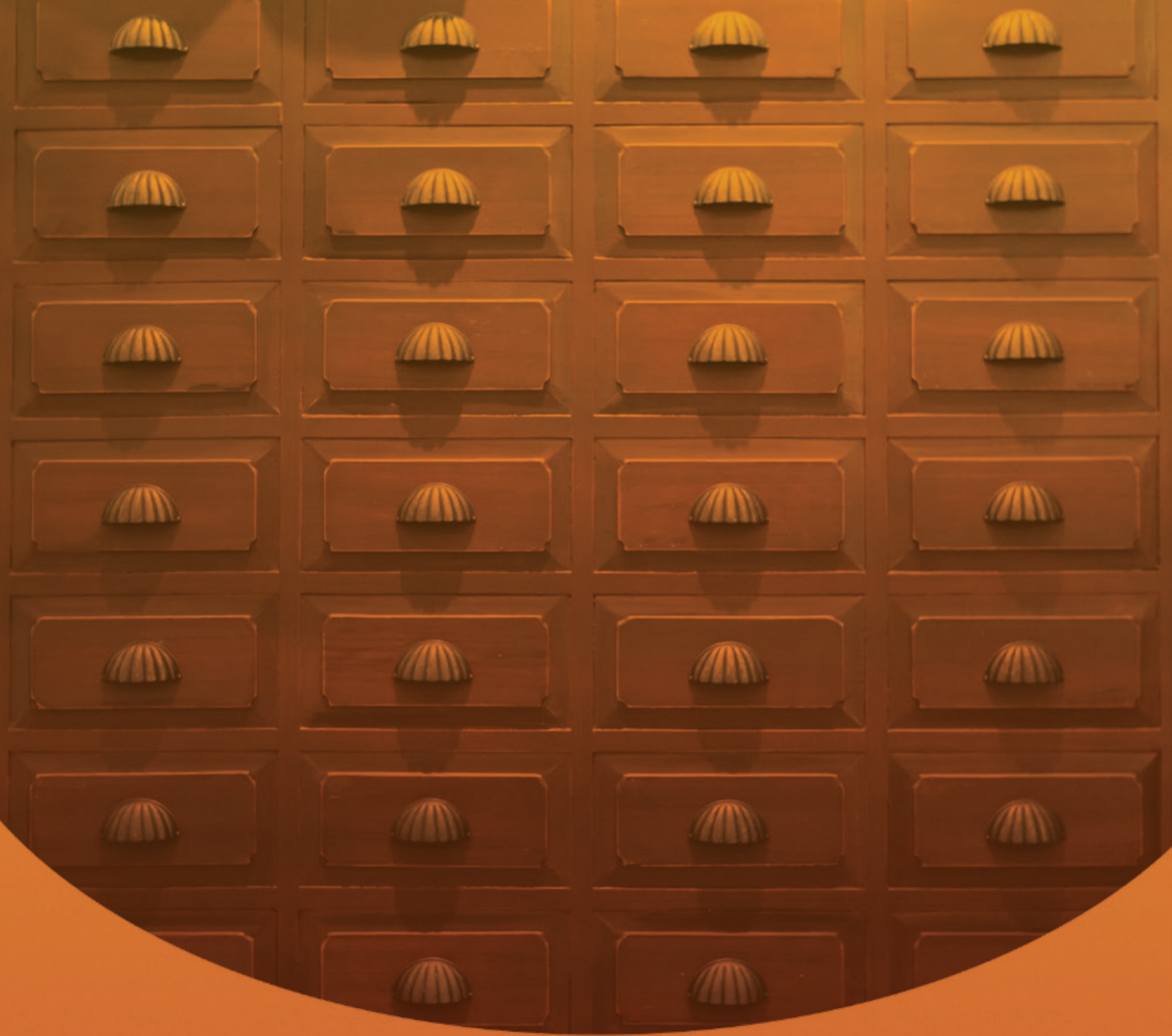
Details of Key Risks Identified

Throughout the risk assessment process in 2023, the following are the material risks identified and their respective mitigation plan(s):

| Category | Risk identified | Mitigation plan(s) |
|-------------|--|--|
| Strategic | Loss of revenue/market share. | <ul style="list-style-type: none"> • Maintain good relationship with customers and deliver quality products timely. • Commit substantial effort in promoting our brand and providing quality products. |
| Operational | Highly competitive market creates pressure on the Group's revenue and profitability. | <ul style="list-style-type: none"> • Maintain and provide high-quality products to customers. • Strengthen the promotion of our brand and increase its popularity. • Improve the professional knowledge of our personnel to promote with our customers effectively. |

| Category | Risk identified | Mitigation plan(s) |
|------------|--|---|
| Regulatory | When economic recession hits, market demand and sales of the Group's products decline. | <ul style="list-style-type: none"> Actively focus on economic environment and its impact on medicine's demand and take countermeasures. |
| Regulatory | Cost of complying local laws and regulation and unexpected changes in regulatory requirements. | <ul style="list-style-type: none"> Tighten the execution of current regulations, OTC team cooperates with RA team to check against product labels and presentation in advertisement to conform to those regulations. For changes in regulations, utilise grace period granted to match the new requirements. |
| Strategic | Economic slowdown/decline in actual market demand for our CCMG products and Chinese healthcare products. | <ul style="list-style-type: none"> Commit substantial efforts to build brand loyalty, strengthen our customer base and provide quality product to consumers. Enhance our e-commerce and customer relationship management to broaden our membership base. Strengthen product cost control to minimize the total cost. |
| Financial | Losses due to counterparties' failure to meet their settlement obligations. | <ul style="list-style-type: none"> With guidelines to control approval of credit limit and credit terms. |
| Regulatory | Present or future industry regulations or enforcement may adversely affect our business operations. | <ul style="list-style-type: none"> Maintain good relationship and communicate continuously with government departments to obtain information. Thus, the Group can response to the changes in timely fashion. Get familiar with the national and local laws and regulations as well as any changes. |

| Category | Risk identified | Mitigation plan(s) |
|-------------|--|--|
| Operational | Unable to maintain inventory in proper level with reasonable cost. | <ul style="list-style-type: none"> Sales team provides 4-8 months/6-month rolling sales forecast to SCM on monthly basis to maintain proper inventory level and reduce risk of write off obsolete inventories. Strategic stockpiling by procuring raw herbs at low price and compare with historical prices/ management expectation. Procure from large and reliable suppliers to stabilize the quality of raw Chinese herbs. |
| Regulatory | Changes in political, regulations or economic condition impacting the Group, and PRC government may open the CCMG market, inducing more competitors. | <ul style="list-style-type: none"> Expand our market share by devoting more effort in developing new products and maintaining good relationship with our existing customers Designated teams to monitor and handle compliance issues related to production and product licenses Coordinate with regulators to minimise impact of changes to the Group |
| Operational | Sale of CCMG rely on the distributor. If the relationship with them alter, it may cause negative effects. | <ul style="list-style-type: none"> We have local sales representatives in major regions to support and maintain relationship with local distributors. |



Report of the Directors

PuraPharm Corporation Limited
– 2023 Annual Report





Report of the Directors

PuraPharm Corporation Limited
– 2023 Annual Report

The Directors present their report and the audited financial statements for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and its subsidiaries have been principally engaged in the research and development, production and sale of concentrated Chinese medicine granule (“CCMG”) products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and the manufacture and sale of Traditional Chinese Medicine (“TCM”) decoction pieces as well as the rendering of Chinese medical diagnostic services. Details of the principal activities of the principal subsidiaries are set out in note 1 to the consolidated financial statements.

Further discussion and analysis of these activities and other disclosures as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group’s business, can be found in the “Management Discussion and Analysis” set out on pages 44 to 53 of this annual report. This discussion forms part of this directors’ report.

RESULTS

The Group’s profit for the year ended 31 December 2023 and the Group’s financial position as at that date are set out in the consolidated financial statements on pages 146 to 252.

COMPLIANCE WITH THE LAWS AND REGULATIONS

During the year ended 31 December 2023 and up to the date of this annual report, the Group in all material aspects has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year ended 31 December 2023 and up to the date of this annual report.

DIVIDEND POLICY

The Company has adopted a general dividend policy that aims to provide shareholders of the Company out of the Group’s profit attributable to shareholders in any financial year. In proposing any dividend payout; the Board shall take into account, inter alia, the following factors:

- the Group’s earnings and financial condition;
- the Group’s operating requirements;
- capital requirements; and
- any other conditions that the Directors may deem relevant.

The payment of dividend is also subject to any restrictions under the applicable laws and the Articles of the Company.

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

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 31 December 2023, the Group had utilised approximately HK\$282.0 million of the Net Proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

| Use | Total approximate amount of Net Proceeds (in HK\$ million) | Approximate percentage of Net Proceeds | Approximate amount utilised as at 31 December 2023 (in HK\$ million) | Approximate amount utilised during the year ended 31 December 2023 (in HK\$ million) | Approximate amount unutilised as at 31 December 2023 (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 2025 |
| Additional working capital of the Group | 28.8 | 10% | 28.8 | — | — | — |
| | 288.4 | 100% | 282.0 | — | 6.4 | |

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 could not be fully fulfilled, the parties to the Asset Sale Agreement agreed that the Asset Sale Agreement should lapse on 30 September 2021 and the sale of the development of the Product would no longer proceed. As such, the Group will continue to apply the unutilised portion of the Net Proceeds allocated to the development of the Product according to the disclosure of the Company's listing prospectus. For further information in relation to the Asset Sale Agreement and the transaction contemplated thereunder, please refer to the announcements of the Company dated 8 October 2020, 25 March 2021 and 5 October 2021.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, and an analysis of the Group's performance using financial key performance indicators is set out on page 254. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2023 are set out in note 30 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DISTRIBUTABLE RESERVES

At 31 December 2023, the Company had no reserve available for distribution.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2023, the Group made charitable contributions totaling HK\$1,276,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, sales to the Group's five largest customers accounted for 15.1% (2022: 15.2%) of the total sales and sales to the largest customer included therein amounted to 6.7% (2022: 5.6%). Purchases from the Group's five largest suppliers accounted for Less than 35% of the total purchases for the year ended 31 December 2023 (2022: less than 20%).

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers.

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

For details of the Group's relationship with customers, suppliers and employees, please refer to the paragraph headed "stakeholder engagement" in the Environmental, Social and Governance Report set out in page 59 of this annual report.

DIRECTORS

The directors of the Company during the year ended 31 December 2023 were:

Chairman and Executive Director:

Mr. Chan Yu Ling, Abraham

Executive Directors:

Ms. Man Yee Wai, Viola

Dr. Norimoto Hisayoshi (retired on 20 November 2023)

Non-executive Director:

Mr. Leung Stephen Kwok Keung
(appointed on 14 June 2023)

Independent non-executive Directors:

Mr. Ho Kwok Wah, George

Dr. Leung Lim Kin, Simon

Prof. Tsui Lap Chee

In accordance with article 112 of the Company's articles of association, Mr. Leung Stephen Kwok Keung will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 108 of the Company's articles of association, Ms. Man Yee Wai, Viola and Prof. Tsui Lap Chee will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are appointed for periods of three years subject to his or her retirement and re-election at annual general meeting in accordance with the Company's Articles.

The Company has received annual confirmations of independence from Dr. Leung Lim Kin, Simon, Mr. Ho Kwok Wah, George and Prof. Tsui Lap Chee, and as at the date of this annual report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 8 to 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the Non-executive Director and Independent Non-executive Directors has signed an appointment letter with the Company for a term of three years unless terminated by a written notice not less than 30 days' prior to the termination served by either party on the other. The appointments are subject to the provisions of retirement and rotation of directors under the Articles. None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance, the results of the Group and recommendation from the remuneration committee. Details of the remuneration of the Directors and the five highest paid individuals of the Group for the year ended 31 December 2023 are set out in notes 8 and 9 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year ended 31 December 2023.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2023, the Directors and chief executive of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 (previously Appendix 10) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

| Name of Director | Nature of Interest | Number of Ordinary Shares held or interested ⁽¹⁾ | Percentage of the Company's issued share capital |
|---|--------------------------------------|---|--|
| Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan") | Interest of controlled corporations | 178,854,830 (L) ⁽²⁾⁽³⁾⁽⁴⁾ | 45.18% |
| | Beneficial owner | 40,008,267 (L) | 10.11% |
| | Interest of spouse | 8,226,050 (L) ⁽⁵⁾ | 2.08% |
| | Beneficiary of a trust | 30,000 (L) ⁽⁸⁾ | 0.008% |
| Ms. Man Yee Wai, Viola ("Ms. Viola Man") | Interest of a controlled corporation | 77,349,750 (L) ⁽⁶⁾ | 19.54% |
| | Beneficial owner | 8,211,050 (L) | 2.07% |
| | Interest of spouse | 141,543,347 (L) ⁽⁷⁾ | 35.75% |
| | Beneficiary of a trust | 15,000 (L) ⁽⁸⁾ | 0.004% |
| Dr. Norimoto Hisayoshi (retired on 20 November 2023) | Beneficial owner | 370,000 (L) | 0.09% |
| Mr. Ho Kwok Wah, George | Beneficial owner | 18,000 (L) | 0.005% |
| | Beneficiary of a trust | 2,000 (L) ⁽⁸⁾ | 0.001% |
| Dr. Leung Lim Kin, Simon | Beneficial owner | 18,000 (L) | 0.005% |
| | Beneficiary of a trust | 2,000 (L) ⁽⁸⁾ | 0.001% |
| Prof. Tsui Lap Chee | Beneficial owner | 18,000 (L) | 0.005% |
| | Beneficiary of a trust | 2,000 (L) ⁽⁸⁾ | 0.001% |

Notes:

1. The letter "L" denotes the person's long position in such securities.
2. Mr. Abraham Chan beneficially owns 50% of the issued share capital of Joint Partners Investments Limited ("Joint Partners"), which in turn wholly owns the entire issued capital of PuraPharm Corporation Limited ("PuraPharm Corp"), a limited liability company incorporated in the British Virgin Islands on 5 May 1998. PuraPharm Corp owns 77,349,750 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by PuraPharm Corp.
3. Mr. Abraham Chan beneficially owns the entire issued share capital of Fullgold Development Limited ("Fullgold Development"), which in turn owns 81,929,000 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Fullgold Development.
4. Mr. Abraham Chan beneficially owns the entire issued share capital of Gold Sparkle Limited ("Gold Sparkle"), which in turn owns 19,576,080 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Gold Sparkle.
5. Mr. Abraham Chan is the spouse of Ms. Viola Man. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Ms. Viola Man.
6. Ms. Viola Man beneficially owns 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued capital of PuraPharm Corp. PuraPharm Corp owns 77,349,750 Shares. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by PuraPharm Corp.
7. Ms. Viola Man is the spouse of Mr. Abraham Chan. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by Mr. Abraham Chan.
8. These shares represent Shares granted to such directors pursuant to the Share Award Scheme, which are held on trust by the Share Award Scheme Trust until the Shares are vested. For further detail, please refer to the paragraph headed "Share Award Scheme" below.
9. All interests are calculated based on the total Shares in issue as at 31 December 2023, being 395,897,275.

Save as disclosed above, as at 31 December 2023, none of the Directors, chief executive of the Company and/or their respective associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2023, so far as was known to the Directors, the following entity (not being the Director or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

| Name of entity | Nature of Interest | Number of Shares held or interested ⁽¹⁾ | Percentage of the Company's issued share capital |
|----------------------|--------------------------------------|--|--|
| PuraPharm Corp | Beneficial owner | 77,349,750 (L) ⁽²⁾ | 19.54% |
| Joint Partners | Interest of a controlled corporation | 77,349,750 (L) ⁽²⁾⁽³⁾ | 19.54% |
| Fullgold Development | Beneficial owner | 81,929,000 (L) | 20.69% |

Notes:

- The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.
- Mr. Abraham Chan and Ms. Viola Man beneficially own 50% and 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued share capital of PuraPharm Corp.
- PuraPharm Corp is wholly owned by Joint Partners. By virtue of the SFO, Joint Partners is deemed to be interested in the Shares held by PuraPharm Corp.
- All interests are calculated based on the total Shares in issue as at 31 December 2023, being 395,897,275.

Save as disclosed above, as at 31 December 2023, no person, other than a Director or chief executive of the Company, had registered an interest or short position in the Shares, underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

On 12 June 2015, the share option scheme (the "Share Option Scheme") was adopted by the then Shareholders and will be valid and effective for a period of 10 years from the adoption date on 12 June 2015 and shall expire on the day immediately preceding the tenth anniversary period (which will expire on 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 options under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share on the date of grant. Any share options granted under the Share Option Scheme shall lapse in any event not later than ten years from the date of grant. A nominal value of HK\$1.00 is payable on acceptance of each grant of share options. The period within which payments or calls must or may be made or loans for such purposes must be repaid for the amount payable on acceptance of the option under the rules of the Share Option Scheme is 30 days after the relevant date of grant of the options. The Board shall have the discretion to decide the period within which the shares must be taken up under the share options and the minimum period for which the share option must be held before it can be exercised.

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

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

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

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

| | | |
|--|---|--|
| Closing price of the shares on the date of grant | : | HK\$1.29 per share |
| Closing price of the shares immediately before the date of grant | : | HK\$1.28 per share |
| Validity period of the options | : | 10 years from 29 December 2022 to 28 December 2032, both dates inclusive |
| Vesting schedule of the options | : | 50% of options granted on the first anniversary date of grant shall be vested to the Grantees and the remaining balance of 50% on the second anniversary date of grant shall be vested to the Grantees |

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

As at 1 January 2023 and 31 December 2023, the total number of share which may be issued upon the exercise of all outstanding options granted under the Share Option Scheme was 24,029,091 and 23,962,424 shares. Since as at 1 January 2023 and 31 December 2023 that the number of issued shares of the Company was 395,897,275 shares and 395,897,275 shares, the total number of share to be issued upon the exercise of all outstanding options under the Share Option Scheme represents approximately 6.07% and 6.05% of the total number of issued shares of the Company.

As at 1 January 2023 and 31 December 2023, the total number of share available for issue under the Share Option Scheme was 31,789,294 and 31,789,294 shares, respectively. Since as at 1 January 2023 and 31 December 2023 that the number of issued shares of the Company was 395,897,275 shares and 395,897,275 shares, the total number of share available for issue under the Share Option Scheme represents approximately 8.03% and 8.03% of the total number of issued shares of the Company, respectively. There was no service provider sublimit set for the Share Option Scheme.

| Grantees | Name of Director | Grant date | Exercise price | Vesting date | As at 1 January 2023 | Number of options granted during the Reporting Period | Exercised during the Reporting Period | Adjustment/ canceled/ lapsed during the Reporting Period | As at 31 December 2023 | |
|-----------|---|-------------|----------------------------|--|--------------------------------------|---|---------------------------------------|--|--------------------------------------|-----------|
| Directors | Mr. Chan Yu Ling, Abraham | 9 May 2019 | HK\$2.3 <i>(Note)</i> | 10 May 2020 10 May 2021 | 1,085,228 1,085,228 | – – | – – | – – | 1,085,228 1,085,228 | |
| | | 24 Jul 2020 | HK\$0.8 | 23 Jul 2021 23 Jul 2022 | 1,740,000 1,740,000 | – – | – – | – – | 1,740,000 1,740,000 | |
| | | 29 Dec 2022 | HK\$1,292 | 29 Dec 2023 29 Dec 2024 | 1,925,000 1,925,000 | – – | – – | – – | 1,925,000 1,925,000 | |
| | | 9 May 2019 | HK\$2.3 <i>(Note)</i> | 10 May 2020 10 May 2021 | 354,275 354,275 | – – | – – | – – | 354,275 354,275 | |
| | | 24 Jul 2020 | HK\$0.8 | 23 Jul 2021 23 Jul 2022 | 1,740,000 1,740,000 | – – | – – | – – | 1,740,000 1,740,000 | |
| | 29 Dec 2022 | HK\$1,292 | 29 Dec 2023 29 Dec 2024 | 1,925,000 1,925,000 | – – | – – | – – | 1,925,000 1,925,000 | | |
| | Sub-total for Directors | | | | 17,539,006 | – | – | – | 17,539,006 | |
| | Mr. Chan Kin Man, Eddie (retired on 28 May 2021) | 9 May 2019 | HK\$2.3 <i>(Note)</i> | 10 May 2020 10 May 2021 | 1,085,228 1,085,228 | – – | – – | – – | 1,085,228 1,085,228 | |
| | | 24 Jul 2020 | HK\$0.8 | 23 Jul 2021 23 Jul 2022 | 871,000 871,000 | – – | – – | – – | 871,000 871,000 | |
| | | 9 May 2019 | HK\$2.3 <i>(Note)</i> | 10 May 2020 10 May 2021 | 354,275 354,275 | – – | – – | – – | 354,275 354,275 | |
| | Dr. Tsoi Kam Biu, Alvin (retired on 28 May 2021) | 24 Jul 2020 | HK\$0.8 | 23 Jul 2022 | 871,000 | – | – | – | 871,000 | |
| | | 09 May 2019 | HK\$2.3 <i>(Note)</i> | 10 May 2020 10 May 2021 10 May 2022 10 May 2023 | 44,285 44,285 44,284 44,284 | – – – – | – – – – | – – – – | 44,285 44,285 44,284 44,284 | |
| | Mr. Norimoto Hisayoshi | 24 Jul 2020 | HK\$0.8 | 23 Jul 2021 23 Jul 2022 23 Jul 2023 | 66,667 66,667 66,666 | – – – | – – – | – – – | 66,667 66,667 66,666 | |
| | | Sub-total | | | | 5,869,144 | – | – | – | 5,869,144 |

| Grantees | Name of Director | Grant date | Exercise price | Vesting date | As at 1 January 2023 | Number of options granted during the Reporting Period | Exercised during the Reporting Period | Adjustment/ canceled/ lapsed during the Reporting Period | As at 31 December 2023 |
|-----------|-------------------------|-------------------|----------------|--------------|----------------------|---|---------------------------------------|--|------------------------|
| Employees | 9 May 2019 | HK\$2.3 (Note) | 10 May 2020 | 88,570 | - | - | - | 88,570 | |
| | | | 10 May 2021 | 88,568 | - | - | - | 88,568 | |
| | | | 10 May 2022 | 88,568 | - | - | - | 88,568 | |
| | | | 10 May 2023 | 88,568 | - | - | - | 88,568 | |
| | | | | 354,274 | - | - | - | 354,274 | |
| | 24 July 2020 | HK\$0.8 | 23 July 2021 | - | - | - | - | - | |
| | | | 23 July 2022 | 133,333 | - | - | (33,333) | 100,000 | |
| | | | 23 July 2023 | 133,334 | - | - | (33,334) | 100,000 | |
| | | | | 266,667 | - | - | (66,667) | 200,000 | |
| | Sub-total for Employees | | | | | 620,941 | - | - | (66,667) |
| Total | | | | | 24,029,091 | - | - | (66,667) | 23,962,424 |

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

SHARE AWARD SCHEME

The Board adopted a share award scheme on 22 February 2016 (the "Share 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.

Purpose

The purpose of the Share 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.

Eligible Award Participants of the Share Award Scheme

The eligible award participant of the Share Award Scheme (the "Eligible Award Participant") are employees and non-executive Directors 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, but excluding any employees and non-executive Directors of any member of the Group who has tendered his/her resignation or who has been given a notice of dismissal by the Company and/or the relevant member of the Group.

Total number of shares available to be granted

The Share Award Scheme does not involve any issue of new shares.

The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administering the Share Award Scheme by a professional trustee (the "trustee"). The Share Award Scheme Trust will acquire the Shares from the Stock Exchange, with a maximum amount of funds to be allocated by the Board, and hold such Shares 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 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.

As at 31 December 2023, the Share Award Scheme Trust held 844,335 shares (the "Award Shares") (31 December 2022: 844,335 Award Shares), which were available to be granted to the Eligible Award Participant, representing approximately 0.2% of the issued shares as at the date of this annual report. During the year ended 31 December 2023, no share (2022: nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and no share (2022: 115,000) was vested on during the year ended 31 December 2023.

The Group recognised a net share award expense of nil for the year ended 31 December 2023 (2022: HK\$39,000).

Maximum Entitlement of the Eligible Award Participant

The Board may, from time to time, at its absolute discretion select any Eligible Award Participant for participation in the Scheme as a selected participant (the "Selected Participant") and determine the number of Awarded Shares to be awarded to the respective Selected Participants, the terms and conditions before the Awarded Shares may be vested and other related matters as expressly provided under the Share Award Scheme.

The Board shall not make any further grant of award of shares under the Share Award Scheme such that the total number of shares granted under the Scheme will exceed 5% of the total number of issued shares as of 22 February 2016, being the date of which the Share Award Scheme was adopted.

Vesting Period of the Awarded Shares

A Selected Participant shall be entitled to receive the Awarded Shares held by the Trustee in accordance with the vesting schedule upon when the Selected Participant has satisfied all vesting conditions specified by the Board at the time of making the award. Vesting of the Shares will be conditional on the Selected Participant remaining a director or employee of the Group until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee. There is no exercise period in relation to the Awarded Shares.

Amount payable on acceptance of the Awarded Shares

The Board shall be at its discretion entitled to determine the amount payable on acceptance of the Awarded Shares. There is no exercise price or purchase price of the Awarded Shares under the Share Award Scheme.

Remaining life of the Share Award Scheme

The Scheme shall terminate on the earlier of the 10th anniversary date from 22 February 2016 or such date of early termination as determined by the Board.

Voting Rights

The Trustee shall not exercise the voting rights in respect of any unvested Shares held under the Share Award Scheme Trust (including but not limited to the Awarded Shares, further shares acquired out of the income derived therefrom, the returned shares, any bonus shares and scrip shares).

Awarded Shares

During the Reporting Period and up to the date of this annual report, there was no outstanding or unvested Awarded Shares under the Share Award Scheme.

During the Reporting Period, no Award Shares were granted (2022: nil).

The number of Shares that may be issued in respect of options and Award Shares, if any, granted under all of the abovementioned share incentive schemes of the Company during the Reporting Period divided by the weighted average total issued share capital of the Company for the Reporting Period is nil (2022: approximately 0.0195).

CONNECTED TRANSACTIONS

There has been no connected transaction or continuing connected transaction entered into by the Group which require disclosure under Chapter 14A of the Listing Rules during the year ended 31 December 2023.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year ended 31 December 2023 are set out in note 36 to the consolidated financial statements. None of the related party transactions would constitute a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Pursuant to the deed of non-competition dated 16 June 2015 entered into by Fullgold Development, Joint Partners, PuraPharm Corp, Mr. Abraham Chan, Ms. Viola Man (collectively known as the "Covenantors") in favour of the Company (the "Deed of Non-Competition"), each of the Covenantors has confirmed to the Company of its/his/her compliance with the Deed of Non-Competition during the year ended 31 December 2023.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 36 to the consolidated financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

For details of the Group's environmental policies and performance, please refer to the Environmental, Social and Governance Report set out on pages 56 to 95 of this annual report.

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

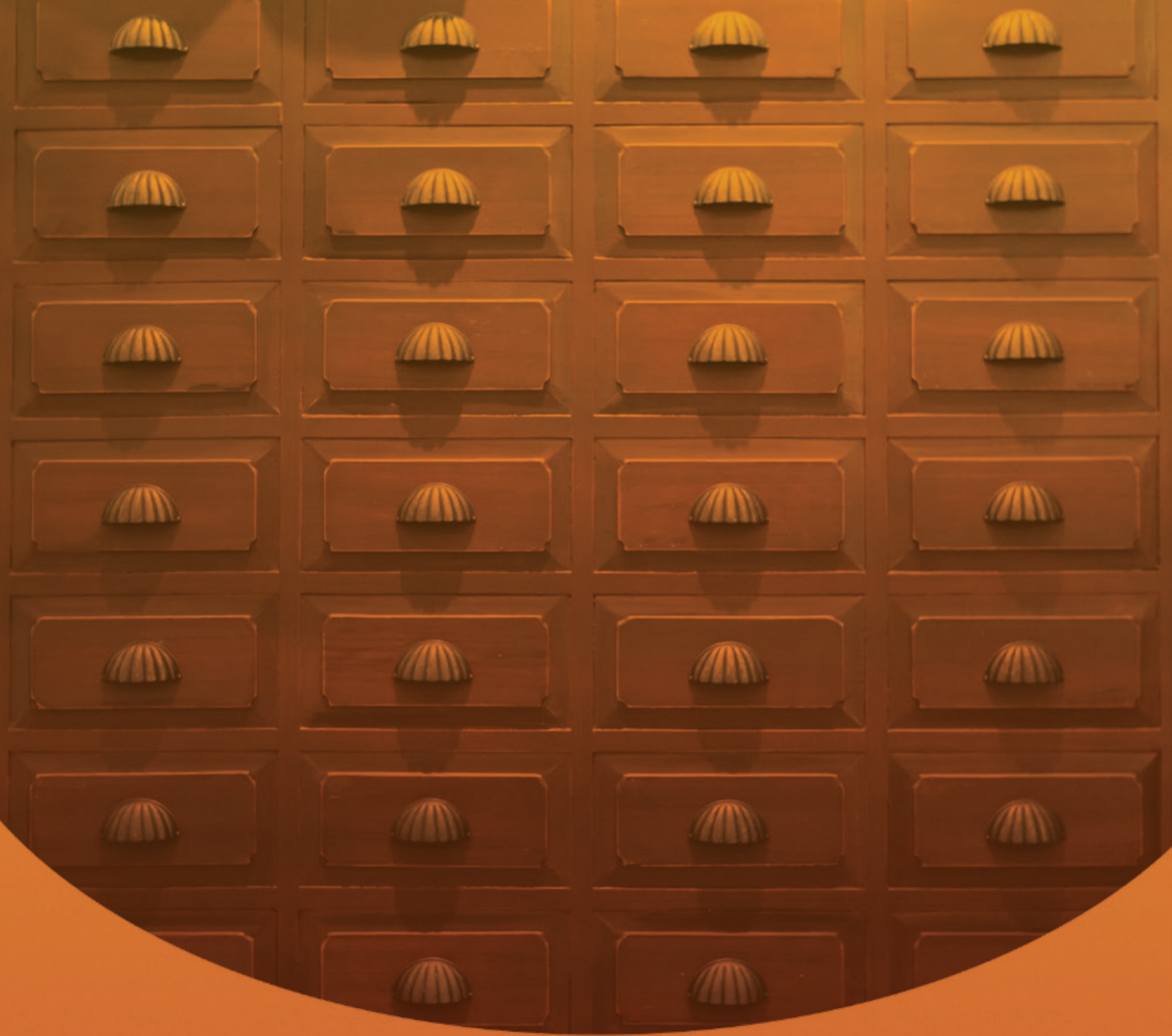
The Board is not aware any significant event affecting the Company or any of its subsidiaries after 31 December 2023 and up to the date of this annual report requiring disclosure.

AUDITOR

Ernst & Young retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Chan Yu Ling, Abraham
Chairman

Hong Kong, 28 March 2024



Independent Auditor's Report

PuraPharm Corporation Limited
– 2023 Annual Report





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To the shareholders of PuraPharm Corporation Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of PuraPharm Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 146 to 252, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Provision for impairment of trade and bills receivables</p> <p>As at 31 December 2023, the Group had trade and bills receivables of HK\$80,870,000, after making a provision of HK\$52,396,000. The Group uses a provision matrix to calculate expected credit losses (“ECL”) for trade and bills receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group’s historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. This matter was significant to our audit because of the high level of management estimation required and the materiality of amounts.</p> <p>The disclosures about the provision for impairment of trade and bills receivables are included in note 2.4 MATERIAL ACCOUNTING POLICIES, note 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES and note 22 TRADE AND BILLS RECEIVABLES to the consolidated financial statements.</p> | <p>We assessed the Group’s internal controls over the credit control of trade and bills receivables and evaluated the mathematic calculation by recalculating the provision matrix of ECLs.</p> <p>We evaluated the assumptions used in the ECL model by 1) assessing management’s determination of the groupings of customer segments with similar loss patterns by reviewing the credit terms and historical payment patterns of different categories of the customers; 2) examining the underlying data used in the provision matrix by checking to the corresponding ageing and payment records; and 3) evaluating forward-looking adjustments by analysing the deviation between forward-looking factors and the Group’s historical default rate.</p> <p>We also assessed the adequacy of the related disclosures in the consolidated financial statements.</p> |

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tjen, Michael.

Ernst & Young
Certified Public Accountants
Hong Kong

28 March 2024

Consolidated Statement of Profit or Loss

Year ended 31 December 2023

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | 5 | 406,859 | 448,069 |
| Cost of sales | | (190,230) | (185,365) |
| Gross profit | | 216,629 | 262,704 |
| Other income and gains | 5 | 15,151 | 15,990 |
| Selling and distribution expenses | | (91,658) | (157,383) |
| Administrative expenses | | (171,520) | (157,915) |
| Share of loss of a joint venture | | (145) | – |
| Impairment loss on property, plant and equipment | | (12,804) | (3,022) |
| Impairment loss on goodwill | 6 | (3,049) | – |
| Impairment loss on financial assets, net | 6 | (5,034) | (11,906) |
| Other expenses | | (22,475) | (43,467) |
| Finance costs | 7 | (27,407) | (24,183) |
| LOSS BEFORE TAX | 6 | (102,312) | (119,182) |
| Income tax expense | 10 | (3,769) | (1,032) |
| LOSS FOR THE YEAR | | (106,081) | (120,214) |
| Attributable to: | | | |
| Owners of the parent | | (106,081) | (120,214) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| Basic and diluted | | | |
| – For loss for the year (expressed in HK cents per share) | | (26.85) | (30.47) |

Consolidated Statement of Comprehensive Income

Year ended 31 December 2023

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

Consolidated Statement of Financial Position

31 December 2023

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 291,552 | 319,763 |
| Investment properties | 14 | 4,309 | 4,434 |
| Right-of-use assets | 15(a) | 105,353 | 111,314 |
| Goodwill | 16 | 17,944 | 20,993 |
| Other intangible assets | 17 | 34,744 | 37,640 |
| Investments in a joint venture | 18 | 1,265 | – |
| Financial assets at fair value through profit or loss | 19 | 20,425 | 19,940 |
| Prepayments for non-current assets | 23 | 9,984 | 5,370 |
| Deferred tax assets | 29 | 8,819 | 11,047 |
| Total non-current assets | | 494,395 | 530,501 |
| CURRENT ASSETS | | | |
| Inventories | 20 | 175,597 | 172,380 |
| Biological assets | 21 | – | 18,432 |
| Trade and bills receivables | 22 | 80,870 | 131,866 |
| Prepayments, other receivables and other assets | 23 | 45,354 | 49,889 |
| Tax recoverable | | 526 | 6,415 |
| Restricted cash and pledged deposits | 24 | 27,095 | 31,183 |
| Cash and cash equivalents | 24 | 20,126 | 75,831 |
| Total current assets | | 349,568 | 485,996 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 25 | 146,379 | 137,911 |
| Other payables and accruals | 26 | 100,479 | 97,164 |
| Interest-bearing bank and other borrowings | 27 | 304,023 | 410,140 |
| Lease liabilities | 15(b) | 17,972 | 18,505 |
| Tax payable | | 2,066 | 1,439 |
| Government grants | 28 | 170 | 247 |
| Total current liabilities | | 571,089 | 665,406 |
| NET CURRENT LIABILITIES | | (221,521) | (179,410) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 272,874 | 351,091 |

Consolidated Statement of Financial Position

31 December 2023

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT LIABILITIES | | | |
| Other payables and accruals | 26 | 14,044 | 14,248 |
| Interest-bearing bank and other borrowings | 27 | 81,093 | 48,680 |
| Lease liabilities | 15(b) | 21,682 | 25,832 |
| Government grants | 28 | 1,076 | 1,025 |
| Deferred tax liabilities | 29 | 1,743 | 3,017 |
| Total non-current liabilities | | 119,638 | 92,802 |
| Net assets | | 153,236 | 258,289 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 30 | 306,820 | 306,820 |
| Shares held for share award scheme | 31(b) | (2,859) | (2,859) |
| Reserves | 32 | (150,725) | (45,672) |
| Total equity | | 153,236 | 258,289 |

Mr. Chan Yu Ling, Abraham
Director

Ms. Man Yee Wai, Viola
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

| | Notes | Share capital HK\$'000 (note 30) | Share premium account HK\$'000 (note 30) | Shares held for share award scheme HK\$'000 (note 31(b)) | Reserve for share award and share option scheme HK\$'000 (note 31) | Merger reserve HK\$'000 (note 32) | Surplus reserves HK\$'000 (note 32) | Capital reserve HK\$'000 (note 32) | Exchange fluctuation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|-------|--|--|---|---|--|--|---|--|-----------------------------------|-------------------|
| At 1 January 2023 | | 306,820 | 221,571 | (2,859) | 8,950 | 1,814 | 29,635 | (7,505) | (17,874) | (282,263) | 258,289 |
| Loss for the year | | — | — | — | — | — | — | — | — | (106,081) | (106,081) |
| Other comprehensive income for the year: | | | | | | | | | | | |
| Exchange differences on | | | | | | | | | | | |
| translation of foreign operations | | — | — | — | — | — | — | — | (3,874) | — | (3,874) |
| Reclassification of reserve upon deregistration of a subsidiary | | — | — | — | — | — | — | — | 611 | — | 611 |
| Total comprehensive expense for the year | | — | — | — | — | — | — | — | (3,263) | (106,081) | (109,344) |
| Recognition of equity-settled share option expenses | 31(a) | — | — | — | 4,291 | — | — | — | — | — | 4,291 |
| Forfeiting of share option | 31(a) | — | — | — | (19) | — | — | — | — | 19 | — |
| At 31 December 2023 | | 306,820 | 221,571* | (2,859) | 13,222* | 1,814* | 29,635* | (7,505)* | (21,137)* | (388,325)* | 153,236 |

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

| | Notes | Share capital HK\$'000 (note 30) | Share premium account HK\$'000 (note 30) | Shares held for share award scheme HK\$'000 (note 31(b)) | Reserve for share award and share option scheme HK\$'000 (note 31) | Merger reserve HK\$'000 (note 32) | Surplus reserves HK\$'000 (note 32) | Capital reserve HK\$'000 (note 32) | Exchange fluctuation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|-------|--|--|---|---|--|--|---|--|-----------------------------------|-------------------|
| At 1 January 2022 | | 306,042 | 221,189 | (3,221) | 10,019 | 1,814 | 29,320 | (7,505) | 6,252 | (162,352) | 401,558 |
| Loss for the year | | — | — | — | — | — | — | — | — | (120,214) | (120,214) |
| Other comprehensive income for the year: | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | — | — | — | — | — | — | — | (24,126) | — | (24,126) |
| Total comprehensive expense for the year | | — | — | — | — | — | — | — | (24,126) | (120,214) | (144,340) |
| Appropriation to surplus reserve | | — | — | — | — | — | 315 | — | — | (315) | — |
| Recognition of equity-settled share option expenses | 31(a) | — | — | — | 730 | — | — | — | — | — | 730 |
| Recognition of equity-settled share award expenses | 31(b) | — | — | — | 49 | — | — | — | — | — | 49 |
| Exercising of share option | | 778 | 315 | — | (290) | — | — | — | — | — | 803 |
| Forfeiting of share option | 31(a) | — | — | — | (1,119) | — | — | — | — | 618 | (501) |
| Forfeiting of share award under Share Award Scheme | 31(b) | — | — | — | (10) | — | — | — | — | — | (10) |
| Transfer of vested shares under Share Award Scheme | | — | 67 | 362 | (429) | — | — | — | — | — | — |
| At 31 December 2022 | | 306,820 | 221,571* | (2,859) | 8,950* | 1,814* | 29,635* | (7,505)* | (17,874)* | (282,263)* | 258,289 |

* These reserve accounts comprise the negative consolidated reserves of HK\$150,725,000 (2022: HK\$45,672,000) in the consolidated statement of financial position as at 31 December 2023.

Consolidated Statement of Cash Flows

Year ended 31 December 2023

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|--|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | (102,312) | (119,182) |
| Adjustments for: | | | |
| Finance costs | 7 | 27,407 | 24,183 |
| Bank interest income | 5 | (293) | (475) |
| Foreign exchange difference, net | 6 | 406 | 84 |
| Loss on disposal of property, plant and equipment | 6 | 354 | – |
| Equity-settled share award and share option expenses | 31 | 4,291 | 268 |
| Depreciation of property, plant and equipment | 6 | 21,711 | 23,840 |
| Depreciation of right-of-use assets | 6 | 21,522 | 19,690 |
| Amortisation of intangible assets | 6 | 5,358 | 5,131 |
| Fair value loss on investment properties | 6 | 63 | 1,619 |
| Fair value loss/(gain) on financial assets at fair value through profit or loss | 6 | 3 | (174) |
| Fair value loss on biological assets | 6 | 16,790 | 36,656 |
| Loss/(gain) on disposal of right-of-use assets | 6 | 932 | (41) |
| Write-down of inventories to net realisable value | 6 | 2,332 | 4,833 |
| Impairment loss on goodwill | 6 | 3,049 | – |
| Impairment loss on property, plant and equipment | 6 | 12,804 | 3,022 |
| Impairment loss on trade and bills receivables | 6 | 2,727 | 10,545 |
| Impairment loss on prepayments, other receivables and other assets | 6 | 2,307 | 1,361 |
| Share of loss of a joint venture | | 145 | – |
| | | 19,596 | 11,360 |
| Decrease/(increase) in inventories | | 10,174 | (8,711) |
| Increase in biological assets | | (16,616) | (8,517) |
| Decrease in trade and bills receivables | | 47,085 | 105,452 |
| Increase in prepayments, deposits and other receivables | | (504) | (3,367) |
| Increase in trade and bills payables | | 10,466 | 9,607 |
| Decrease in government grants | | (8) | (2,045) |
| Increase/(decrease) in other payables and accruals | | 5,585 | (7,079) |
| Decrease/(increase) in tax recoverable | | 5,837 | (4,168) |
| Cash generated from operations | | 81,615 | 92,532 |
| Interest received | | 293 | 475 |
| Hong Kong profits tax paid | | (2,175) | (3,702) |
| Overseas profits tax paid | | (66) | (742) |
| PRC profit taxes paid | | (59) | (58) |
| Net cash flows from operating activities | | 79,608 | 88,505 |

Consolidated Statement of Cash Flows

Year ended 31 December 2023

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|--|-------|------------------|------------------|
| Net cash flows from operating activities | | 79,608 | 88,505 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of financial assets at fair value through profit or loss | | – | (1,204) |
| Purchases of property, plant and equipment | | (19,183) | (20,828) |
| Acquisition of right-of-use assets | | – | (841) |
| Proceeds from disposal of property, plant and equipment | | – | 96 |
| Proceeds from disposal of intangible assets | | – | 1 |
| Additions to intangible assets | | (2,478) | (1,889) |
| Decrease/(increase) in restricted cash and pledged deposits, net | | 4,088 | (5,800) |
| Acquisition of a joint venture | | (630) | (780) |
| Net cash flows used in investing activities | | (18,203) | (31,245) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares upon exercise of share options | | – | 803 |
| Increase in director's loan | | 1,740 | 4,610 |
| New bank loans and other borrowings | 33(b) | 251,287 | 337,499 |
| Repayment of bank loans and other borrowings | 33(b) | (318,338) | (340,830) |
| (Decrease)/increase in overdrafts | 33(b) | (7,710) | 5,547 |
| Principal portion of lease payments | 33(b) | (21,947) | (19,040) |
| Interest paid for lease liabilities | 33(b) | (1,789) | (1,526) |
| Interest paid for bank and other borrowings | 33(b) | (25,633) | (22,657) |
| Net cash flows used in financing activities | | (122,390) | (35,594) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | (60,985) | 21,666 |
| Cash and cash equivalents at beginning of year | | 75,831 | 59,671 |
| Effect of foreign exchange rate changes, net | | 5,280 | (5,506) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 20,126 | 75,831 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 24 | 20,126 | 75,831 |
| Cash and cash equivalents as stated in the statement of cash flows | | 20,126 | 75,831 |

Notes to Financial Statements

31 December 2023

1. CORPORATE AND GROUP INFORMATION

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

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

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

The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 July 2015 (the "Listing").

Particulars of the Company's subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/paid-up/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|---|--|----------|--|
| | | | Direct | Indirect | |
| PuraPharm Holdings Limited | BVI | United States dollar ("US\$") 1 | 100% | – | Investment holding |
| Nong's Corporation Limited | BVI | US\$25,019 | – | 100% | Investment holding |
| PuraPharm Health Limited | BVI | US\$1 | – | 100% | Investment holding |
| Nong's International Limited | BVI | US\$1 | – | 100% | Investment holding and trading of Chinese healthcare products and modernised Chinese medicines |
| Nong's Clinic Holdings Limited | BVI | US\$1,283 | – | 100% | Investment holding |
| PuraPharm Canada Corporation | Canada | HK\$100 | – | 100% | Trading of Chinese healthcare products |
| PuraPharm International (Singapore) Pte Limited | Singapore | Singapore dollar 2 | – | 100% | Trading of Chinese healthcare products |
| K'an Herb Company | USA | US\$233,848 | – | 100% | Manufacture and sale of Chinese herbal products |
| PuraPharm International Limited | Hong Kong | HK\$2 | – | 100% | Trading of Chinese healthcare products |

Notes to Financial Statements

31 December 2023

1. CORPORATE AND GROUP INFORMATION (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/paid-up/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|---|--|----------|--|
| | | | Direct | Indirect | |
| Poly Modern TCM Research Institute Limited | Hong Kong | HK\$48,160,000 | – | 100% | Trading of Chinese healthcare products |
| PuraPharm Corporation | United States of America ("USA") | US\$1,000 | – | 100% | Trading of Chinese healthcare products |
| PuraPharm Japan Corporation | Japan | Japanese yen ("JPY") 180,010,000 | – | 100% | Research and development of new products |
| PuraPharm International (H.K.) Limited | Hong Kong | HK\$2,000,000 | – | 100% | Manufacture and trading of Chinese healthcare products |
| PuraPharm Health International Limited | Hong Kong | HK\$1 | – | 100% | Trading of Chinese healthcare products |
| Natural Corporation Limited | Hong Kong | HK\$100 | – | 100% | Trading of Chinese healthcare products |
| PuraPharm Research Corporation Limited | Hong Kong | HK\$10,000 | – | 100% | Research and development of modernised Chinese medicines |
| PuraPharm Investment Limited | Hong Kong | HK\$1 | – | 100% | Trading of Chinese medicines |
| Nong's Company Limited | Hong Kong | HK\$2 | – | 100% | Trading of modernized Chinese medicines |
| PuraPharm Australia Pty Ltd. | Australia | Australian dollar ("AUS\$") 1 | – | 100% | Trading of Chinese healthcare products |
| Nong's (Guangxi) Company Limited | Hong Kong | HK\$10,000 | – | 100% | Investment holding |
| SODX Co., Ltd. | Japan | JPY90,000,000 | – | 100% | Manufacture and sale of health food |
| Nong's Chinese Medicine Clinic Centre Limited | Hong Kong | HK\$2 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Chinese Medicine Health Care Centre Limited | Hong Kong | HK\$10,000 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare Solution Limited | Hong Kong | HK\$1 | – | 100% | Investment Holding |
| 南寧農本方醫療諮詢有限公司 ^(a) | People's Republic of China ("PRC")/ Chinese Mainland | Chinese yuan ("RMB") 7,000,000 | – | 100% | Provision of Chinese medical diagnostic services |

Notes to Financial Statements

31 December 2023

1. CORPORATE AND GROUP INFORMATION (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/paid-up/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|--|----------|--|
| | | | Direct | Indirect | |
| PuraPharm (Macao) Limited | Macao | Macau pataca 25,000 | – | 100% | Trading of Chinese healthcare products and modernised Chinese medicines |
| PuraPharm (Nanning) Pharmaceuticals Co. Limited ^(a) | PRC/Chinese Mainland | RMB202,000,000 | – | 100% | Manufacture and trading of Chinese healthcare products and modernised Chinese medicines |
| 上海農本方中醫門診部有限公司 ^(a) | PRC/Chinese Mainland | RMB3,500,000 | – | 100% | Provision of Chinese medical diagnostic services |
| 南寧農本方中醫門診部有限公司 ^(a) | PRC/Chinese Mainland | RMB2,000,000 | – | 100% | Provision of Chinese medical diagnostic services |
| 深圳前海培力生物科技有限公司 ^(a) | PRC/Chinese Mainland | RMB5,000,000 | – | 100% | Research and development of bio-based polymeric materials |
| 上海培力營銷諮詢服務有限公司 ^(a) | PRC/Chinese Mainland | RMB2,000,000 | – | 100% | Provision of marketing consultation services |
| 培力(中山)生物科技有限公司 ^(a) | PRC/Chinese Mainland | RMB5,000,000 | – | 100% | Research and development of bio-based polymeric materials |
| PuraPharm (Guizhou) Chinese Medicine Co. Limited ^(a) | PRC/Chinese Mainland | RMB100,000,000 | – | 100% | Plantation and trading of raw Chinese herbs |
| Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. ^(a) | PRC/Chinese Mainland | RMB30,000,000 | – | 100% | Plantation and trading of raw Chinese herbs |
| 南寧培力醫藥技術有限公司 ^(a) | PRC/Chinese Mainland | RMB3,470,000 | – | 100% | Research and development of Chinese healthcare products and modernised Chinese medicines |
| 深圳農本方領展中醫診所 ^(b) | PRC/Chinese Mainland | RMB300,000 | – | 100% | Provision of Chinese medical diagnostic services |
| 南寧鑫安中醫診所有限公司 ^(b) | PRC/Chinese Mainland | RMB1,000,000 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 1 Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 2 Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |

Notes to Financial Statements

31 December 2023

1. CORPORATE AND GROUP INFORMATION (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/paid-up/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|------------------------------|---|---|--|----------|--|
| | | | Direct | Indirect | |
| Nong's Healthcare 3 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 4 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 5 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 6 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 7 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 8 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 9 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 10 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 11 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 12 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 13 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 14 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 16 Limited | Hong Kong | HK\$1 | - | 100% | Provision of Chinese medical diagnostic services |

Notes to Financial Statements

31 December 2023

1. CORPORATE AND GROUP INFORMATION (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/paid-up/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|------------------------------|---|---|--|----------|--|
| | | | Direct | Indirect | |
| Nong's Healthcare 19 Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |
| Mega.N Corporation Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 21 Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 22 Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 25 Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 29 Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |
| Nong's Healthcare 30 Limited | Hong Kong | HK\$1 | – | 100% | Provision of Chinese medical diagnostic services |

^(a) Registered as wholly-foreign-owned enterprises under the laws of the PRC.

^(b) The Group controls these entities through share-holding entrustment agreements.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

- (a) The Group continues to restructure their products mix, downsizing those non-profitable business operations and tightening overall cost control measures so as to attain profitable and positive cash flow operations;
- (b) As at 31 December 2023, among all of the Group's short term bank and borrowings, the aggregated revolving loans amounted to HK\$86.3 million. Although breaches of covenants were noted for some of the revolving loan facilities of HK\$36.9 million. Based on historical experiences, the respective banks continue to allow the Group to utilised their facilities while the Group continue to be able to drawn HK\$4.9 million of loans from these facilities subsequent to the year end date. The directors are also actively negotiating with the banks to revise the facilities covenants and consider it is highly probable that they could continue to draw down the unutilised bank facilities of HK\$105.5 million as at 31 December 2023 to rollover their revolving loans for another year;
- (c) As at 31 December 2023, breaches of covenants were noted for certain of the Group's term loans of HK\$56.3 million. Based on historical experiences, the banks will continue to allow the Group to repay the loans according to the original payment schedule. In addition, the directors are also actively negotiating with respective banks and other lenders to defer the repayment terms of some of their short-term loans and was able to extend the repayment schedule of short-term loans amounted to HK\$22.1 million to 2025 subsequent to year end date;

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- (d) The Group had non-pledged long-term assets of HK\$152.8 million in the PRC as at 31 December 2023 and continue to seek for new borrowings. The Group was able to obtain new bank borrowings of HK\$11 million subsequent to year end date;
- (e) The Group is actively seeking potential investor to raise capital; and
- (f) The Group is seeking opportunities to dispose some of its assets and subsidiaries that are not related to their core business operations.

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

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

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

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

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures

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

| | |
|---|---|
| HKFRS 17 | <i>Insurance Contracts</i> |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | <i>Disclosure of Accounting Policies</i> |
| Amendments to HKAS 8 | <i>Definition of Accounting Estimate</i> |
| Amendments to HKAS 12 | <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> |
| Amendments to HKAS 12 | <i>International Tax Reform – Pillar Two Model Rules</i> |

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

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

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

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

| | |
|------------------------------------|--|
| Amendments to HKFRS 10 and HKAS 28 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i> |
| Amendments to HKFRS 16 | <i>Lease Liability in a Sale and Leaseback¹</i> |
| Amendments to HKAS 1 | <i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")^{1, 4}</i> |
| Amendments to HKAS 1 | <i>Non-current Liabilities with Covenants (the "2022 Amendments")^{1, 4}</i> |
| Amendments to HKAS 7 and HKFRS 7 | <i>Supplier Finance Arrangements¹</i> |
| Amendments to HKAS 21 | <i>Lack of Exchangeability²</i> |

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

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

³ No mandatory effective date yet determined but available for adoption

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

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

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other case, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Fair value measurement

The Group measures its investment properties, biological assets and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for a non-financial asset is required (other than inventories, contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|--------------------------------|---|
| Buildings | 2.5% to 10% |
| Leasehold improvements | Over the shorter of the lease terms and 20% |
| Machinery and equipment | 4.5% to 30% |
| Office equipment and furniture | 9% to 50% |
| Motor vehicles | 9% to 20% |
| Freehold land | Not depreciated |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Investment properties

Investment properties are interests in land and buildings (including right-of-use assets) held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks, patents, licenses and software

Purchased trademarks, patents, licences and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 15 years.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|-------------------------|---------------|
| Land and buildings | 2 to 50 years |
| Machinery and equipment | 3 to 5 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Leases (continued)

Group as a lessor (continued)

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes life insurance policies which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on the equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Derecognition of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (trade and other payables, and borrowings)

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Agricultural produce harvested from the Group's biological assets are raw Chinese herbs. Agricultural produce is initially recognised as inventories at their fair values less costs to sell at the point of harvest, which are determined based on their market prices quoted in the local area. Any resultant gain or loss arising on initial recognition of such fair values is recognised in profit or loss in the period of harvest. Upon subsequent sales, such amount of the inventories initially recognised is charged to the cost of sales in profit or loss.

Biological assets

Biological assets are measured on initial recognition and at the end of each reporting period at their fair values less costs to sell. If the fair value of a biological asset cannot be measured reliably, the biological asset shall be measured at its cost. Any resultant gain or loss arising from changes in fair value less costs to sell is charged to profit or loss for the period in which the gain or loss arises.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of goods

Revenue from the sale of goods include the sale of CCMG products, Chinese healthcare products, and raw Chinese herbs. Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sale of goods provide customers with rights of return and volume rebates, giving rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Rendering of services

Revenue from the rendering of services includes the rendering of Chinese medical diagnostic services (the "Diagnostic Services"). Revenue from the rendering of services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. They are reclassified to trade receivables when the right to the consideration becomes unconditional.

Contract liabilities

A contract liability is recognised when a payment is received, or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

The Company operates a share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee benefits

As stipulated by the rules and regulations of the PRC, the Company's subsidiary which operates in Chinese Mainland is required to contribute to a state-sponsored retirement plan for all its Chinese Mainland employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

Under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, the Company's subsidiaries registered in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The costs of employee retirement benefits are recognised as expenses in the statement of profit or loss in the period in which they are incurred.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements. Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the exchange rates that approximate to those prevailing at the dates of the transactions.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of certain subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Withholding taxes arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distribution of dividends from a subsidiary according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether the subsidiary of the Group is determined to be Chinese resident enterprise by the PRC governing tax authorities in the future. Management considered that it is not probable that the Group's subsidiary in Chinese Mainland will distribute retained profits as at the end of each of the reporting periods in the foreseeable future, and accordingly no provision for withholding tax was made. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for returns and volume rebates

The Group estimates variable consideration to be included in the transaction price for the sale of goods with rights of return and volume rebates.

Notes to Financial Statements

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Variable consideration for returns and volume rebates (continued)

The Group has developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

The Group has applied a statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. Further details are given in note 26 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2023 was HK\$17,944,000 (31 December 2022: HK\$20,993,000). Further details are given in note 16 to the financial statements.

Estimation of fair value of biological assets

The biological assets are stated at fair values less cost to sell. This requires an independent valuer's assessment of the fair value of the biological assets. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these biological assets. Further details are given in note 21 to the financial statements.

Notes to Financial Statements

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables is disclosed in note 22 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for certain deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 29 to the financial statements.

Notes to Financial Statements

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision required involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed. Further details are given in note 20 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

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

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

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

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

Notes to Financial Statements

31 December 2023

4. OPERATING SEGMENT INFORMATION (continued)

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

31 December 2023

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

Notes to Financial Statements

31 December 2023

4. OPERATING SEGMENT INFORMATION (continued)

31 December 2022

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

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

Notes to Financial Statements

31 December 2023

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------------------------|------------------|------------------|
| Hong Kong | 305,283 | 281,531 |
| Chinese Mainland | 62,866 | 132,301 |
| Other countries/regions | 38,710 | 34,237 |
| Total revenue | 406,859 | 448,069 |

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

(b) Non-current assets

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------------------|------------------|------------------|
| Hong Kong | 53,188 | 76,296 |
| Chinese Mainland | 368,473 | 395,726 |
| Other countries/regions | 43,490 | 27,492 |
| Total non-current assets | 465,151 | 499,514 |

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

Information about a major customer

For the years ended 31 December 2023 and 2022, there was no single customer from which more than 10% of the Group's total revenue was derived.

Notes to Financial Statements

31 December 2023

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

Revenue from contracts with customers

- (i) Disaggregated revenue information
For the year ended 31 December 2023

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

Notes to Financial Statements

31 December 2023

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2022

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

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

For the year ended 31 December 2023

| Segments | Sale of goods HK\$'000 | Diagnostic services HK\$'000 | Total HK\$'000 |
|--|---------------------------|------------------------------------|-------------------|
| Revenue from contracts with customers | | | |
| External customers | 392,531 | 14,328 | 406,859 |
| Intersegment sales | 156,331 | – | 156,331 |
| Subtotal | 548,862 | 14,328 | 563,190 |
| Intersegment adjustments and eliminations | (156,331) | – | (156,331) |
| Total revenue from contracts with customers | 392,531 | 14,328 | 406,859 |

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31 December 2023

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2022

| Segments | Sale of goods HK\$'000 | Diagnostic services HK\$'000 | Total HK\$'000 |
|---|---------------------------|------------------------------------|-------------------|
| Revenue from contracts with customers | | | |
| External customers | 435,827 | 12,242 | 448,069 |
| Intersegment sales | 208,505 | – | 208,505 |
| Subtotal | 644,332 | 12,242 | 656,574 |
| Intersegment adjustments and eliminations | (208,505) | – | (208,505) |
| Total revenue from contracts with customers | 435,827 | 12,242 | 448,069 |

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sale of goods | 943 | 9,868 |
| Rendering of services | 304 | 315 |
| Total | 1,247 | 10,183 |

(ii) Performance obligations

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

Sale of goods

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

Rendering of services

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

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5. REVENUE, OTHER INCOME AND GAINS (continued)

Other income and gains

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|--|-------|------------------|------------------|
| Government grants* | 28 | 9,453 | 8,318 |
| Gain from the sale of equipment and accessories | | 3,309 | 1,687 |
| Bank interest income | | 293 | 475 |
| Gross rental income from investment property operating leases: | | | |
| Variable lease payments that do not depend on an index or a rate | 15 | 336 | 405 |
| Others | | 1,760 | 5,105 |
| Total other income and gains | | 15,151 | 15,990 |

* 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.

Notes to Financial Statements

31 December 2023

6. LOSS BEFORE TAX

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|--|-------|------------------|------------------|
| Cost of inventories sold | | 185,881 | 181,518 |
| Cost of services provided | | 4,349 | 3,847 |
| Depreciation of property, plant and equipment | 13 | 21,711 | 23,840 |
| Depreciation of right-of-use assets | 15(a) | 21,522 | 19,690 |
| Amortisation of intangible assets | 17 | 5,358 | 5,131 |
| Fair value loss on investment properties* | 14 | 63 | 1,619 |
| Fair value loss/(gain) on financial assets at fair value through profit or loss* | | 3 | (174) |
| Fair value loss on biological assets, net* | 21 | 16,790 | 36,656 |
| Loss/(gain) on disposal of right-of-use assets* | 15(c) | 932 | (41) |
| Impairment loss on goodwill | 16 | 3,049 | – |
| Write-down of inventories to net realisable value** | 20 | 2,332 | 4,833 |
| Impairment loss on trade and bills receivables | 22 | 2,727 | 10,545 |
| Impairment loss on prepayments, other receivables, and other assets | 23 | 2,307 | 1,361 |
| Impairment loss on property, plant and equipment | 13 | 12,804 | 3,022 |
| Lease payments not included in the measurement of lease liabilities | 15(c) | 2,220 | 4,298 |
| Auditor's remuneration | | 2,550 | 2,600 |
| Employee benefit expense (excluding directors' remuneration (note 8)): | | | |
| Wages and salaries | | 118,268 | 81,618 |
| Pension scheme contributions (defined contribution scheme)**** | | 12,481 | 9,653 |
| Equity-settled share award and share option expenses | 31(a) | 17 | 80 |
| Total | | 130,766 | 91,351 |
| Research and development costs*** | | 16,770 | 22,323 |
| Loss on disposal of property, plant and equipment* | | 354 | – |
| Foreign exchange difference, net | | 406 | 84 |

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

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

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

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

Notes to Financial Statements

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7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|--|-------|------------------|------------------|
| Interests on bank loans and other borrowings | | 25,618 | 22,657 |
| Interests on lease liabilities | 15(c) | 1,789 | 1,526 |
| Total | | 27,407 | 24,183 |

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------|------------------|------------------|
| Fees | | 709 | 808 |
| Other emoluments: | | | |
| Salaries, allowances and benefits in kind | | 6,658 | 6,322 |
| Pension scheme contributions | | 36 | 36 |
| Equity-settled share award and share option expenses | 31 | 4,274 | 188 |
| Subtotal | | 10,968 | 6,546 |
| Total fees and other emoluments | | 11,677 | 7,354 |

(a) Independent non-executive directors

The fees and equity-settled share award expenses paid to independent non-executive directors during the year were as follows:

| 2023 | Fees HK\$'000 | Equity-settled share award expenses HK\$'000 | Total remuneration HK\$'000 |
|--------------------------|------------------|---|-----------------------------------|
| Dr. Leung Lim Kin, Simon | 200 | – | 200 |
| Prof. Tsui Lap Chee | 200 | – | 200 |
| Mr. Ho Kwok Wah, George | 200 | – | 200 |
| Total | 600 | – | 600 |

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors (continued)

| 2022 | Fees HK\$'000 | Equity-settled share award expenses HK\$'000 | Total remuneration HK\$'000 |
|--------------------------|------------------|---|-----------------------------------|
| Dr. Leung Lim Kin, Simon | 200 | 1 | 201 |
| Prof. Tsui Lap Chee | 200 | 1 | 201 |
| Mr. Ho Kwok Wah, George | 200 | 1 | 201 |
| Total | 600 | 3 | 603 |

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2023 and 2022.

(b) Executive directors, non-executive directors and the chief executive

The fees and equity-settled share award and share option expenses paid to executive directors and a non-executive director during the year were as follows:

| | Fees HK\$'000 | Equity-settled share award and share option expenses HK\$'000 | Salaries, compensation, allowances and benefits in kind HK\$'000 | Pension scheme contributions HK\$'000 | Total remuneration HK\$'000 |
|---|------------------|--|--|--|--------------------------------|
| 2023 | | | | | |
| Chief executive and executive director | | | | | |
| Mr. Chan Yu Ling, Abraham | – | 2,133 | 4,054 | 18 | 6,205 |
| Executive directors | | | | | |
| Ms. Man Yee Wai, Viola | – | 2,133 | 1,362 | 18 | 3,513 |
| Dr. Norimoto Hisayoshi ^(a) | – | 8 | 1,242 | – | 1,250 |
| Subtotal | – | 2,141 | 2,604 | 18 | 4,763 |
| Non-executive directors | | | | | |
| Mr. Leung Stephen Kwok Keung ^(b) | 109 | – | – | – | 109 |
| Total | 109 | 4,274 | 6,658 | 36 | 11,077 |

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

| | Fees HK\$'000 | Equity-settled share award and share option expenses HK\$'000 | Salaries, compensation, allowances and benefits in kind HK\$'000 | Pension scheme contributions HK\$'000 | Total remuneration HK\$'000 |
|---|------------------|--|--|--|--------------------------------|
| 2022 | | | | | |
| Chief executive and executive director | | | | | |
| Mr. Chan Yu Ling, Abraham | – | 164 | 3,638 | 18 | 3,820 |
| Executive directors | | | | | |
| Ms. Man Yee Wai, Viola | – | 158 | 1,232 | 18 | 1,408 |
| Dr. Norimoto Hisayoshi | – | 31 | 1,452 | – | 1,483 |
| Subtotal | – | 189 | 2,684 | 18 | 2,891 |
| Non-executive directors | | | | | |
| Mr. Chow, Stanley ^(c) | 158 | – | – | – | 158 |
| Mr. Cheong Shin Keong ^(d) | 50 | (168) | – | – | (118) |
| Subtotal | 208 | (168) | – | – | 40 |
| Total | 208 | 185 | 6,322 | 36 | 6,751 |

^(a) Dr. Norimoto Hisayoshi was ceased to be an executive director on 20 November 2023.

^(b) Mr. Leung Stephen Kwok Keung was appointed as non-executive director on 14 June 2023.

^(c) Mr. Chow, Stanley resigned and left the Company on 23 May 2022.

^(d) Mr. Cheong Shin Keong has been re-designed from an executive director to a non-executive director by the board of directors on 28 June 2021 and retired on 31 March 2022.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2022: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2022: two) highest paid employee who is neither a director nor chief executive of the Company are as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Salaries, allowances and benefits in kind | 5,187 | 2,932 |
| Pension scheme contributions | 51 | 36 |
| Total | 5,238 | 2,968 |

Non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|--------------------------------|---------------------|----------|
| | 2023 | 2022 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 1 |
| HK\$2,000,001 to HK\$2,500,000 | 1 | – |
| Total | 3 | 2 |

10. INCOME TAX

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

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

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

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10. INCOME TAX (continued)

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Current – Hong Kong | | |
| Charge for the year | 2,856 | 663 |
| (Overprovision)/underprovision in prior years | (373) | 386 |
| Current – Elsewhere | 447 | 907 |
| Deferred (note 29) | 839 | (924) |
| Total | 3,769 | 1,032 |

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

2023

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

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10. INCOME TAX (continued) 2022

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

11. DIVIDENDS

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

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

| | 2023 | 2022 |
|---|---------|---------|
| Loss per share attributable to ordinary equity holders of the parent – Basic and diluted (HK cents) | (26.85) | (30.47) |

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12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

(a) Basic

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

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

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

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

(b) Diluted

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

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13. PROPERTY, PLANT AND EQUIPMENT

| | Note | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Machinery and equipment HK\$'000 | Office equipment and furniture HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|---|------|--------------------------------|------------------------------------|-------------------------------------|--|----------------------------|--------------------------------------|-------------------|
| 31 December 2023 | | | | | | | | |
| At 1 January 2023: | | | | | | | | |
| Cost | | 225,129 | 16,513 | 153,867 | 41,934 | 8,171 | 71,284 | 516,898 |
| Accumulated depreciation and impairment | | (39,852) | (13,855) | (94,516) | (34,647) | (6,801) | (7,464) | (197,135) |
| Net carrying amount | | 185,277 | 2,658 | 59,351 | 7,287 | 1,370 | 63,820 | 319,763 |
| At 1 January 2023, net of accumulated depreciation and impairment | | | | | | | | |
| | | 185,277 | 2,658 | 59,351 | 7,287 | 1,370 | 63,820 | 319,763 |
| Additions | | 249 | 2,645 | 3,430 | 947 | 5 | 1,941 | 9,217 |
| Disposal | | (253) | (1) | (56) | (19) | (25) | - | (354) |
| Depreciation provided during the year | 6 | (7,367) | (1,710) | (8,894) | (3,494) | (246) | - | (21,711) |
| Transfers | | 2,890 | - | - | - | - | (2,890) | - |
| Impairment | | (1,261) | - | (8,939) | (899) | (138) | (1,567) | (12,804) |
| Exchange realignment | | (943) | (1) | (633) | (78) | (17) | (887) | (2,559) |
| At 31 December 2023 | | 178,592 | 3,591 | 44,259 | 3,744 | 949 | 60,417 | 291,552 |
| At 31 December 2023: | | | | | | | | |
| Cost | | 225,228 | 15,891 | 155,206 | 41,951 | 7,870 | 69,332 | 515,478 |
| Accumulated depreciation and impairment | | (46,636) | (12,300) | (110,947) | (38,207) | (6,921) | (8,915) | (223,926) |
| Net carrying amount | | 178,592 | 3,591 | 44,259 | 3,744 | 949 | 60,417 | 291,552 |

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Note | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Machinery and equipment HK\$'000 | Office equipment and furniture HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--|------|-----------------------------------|---------------------------------------|---|--|-------------------------------|---|-------------------|
| 31 December 2022 | | | | | | | | |
| At 1 January 2022: | | | | | | | | |
| Cost | | 234,753 | 24,310 | 153,008 | 42,580 | 7,460 | 77,659 | 539,770 |
| Accumulated depreciation and impairment | | (32,078) | (23,718) | (92,375) | (32,571) | (6,750) | (8,164) | (195,656) |
| Net carrying amount | | 202,675 | 592 | 60,633 | 10,009 | 710 | 69,495 | 344,114 |
| At 1 January 2022, net of accumulated depreciation and impairment | | | | | | | | |
| | | 202,675 | 592 | 60,633 | 10,009 | 710 | 69,495 | 344,114 |
| Additions | | 1,789 | 2,655 | 14,417 | 2,404 | 1,001 | 9,847 | 32,113 |
| Disposal | | - | - | (45) | (51) | - | - | (96) |
| Depreciation provided during the year | 6 | (7,935) | (589) | (10,721) | (4,341) | (254) | - | (23,840) |
| Transfers | | 9,820 | - | - | - | - | (9,820) | - |
| Impairment | | (3,022) | - | - | - | - | - | (3,022) |
| Exchange realignment | | (18,050) | - | (4,933) | (734) | (87) | (5,702) | (29,506) |
| At 31 December 2022 | | 185,277 | 2,658 | 59,351 | 7,287 | 1,370 | 63,820 | 319,763 |
| At 31 December 2022: | | | | | | | | |
| Cost | | 225,129 | 16,513 | 153,867 | 41,934 | 8,171 | 71,284 | 516,898 |
| Accumulated depreciation and impairment | | (39,852) | (13,855) | (94,516) | (34,647) | (6,801) | (7,464) | (197,135) |
| Net carrying amount | | 185,277 | 2,658 | 59,351 | 7,287 | 1,370 | 63,820 | 319,763 |

As at 31 December 2023, certain of the Group's buildings, machinery and equipment and office equipment and furniture with an aggregate net carrying amount of approximately HK\$170,336,000 (2022: HK\$177,759,000) were pledged to secure bank loans granted to the Group (note 27).

During the year ended 31 December 2023, an impairment of HK\$12,804,000 (2022: HK\$3,022,000) was provided in respect of property, plant and equipment.

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14. INVESTMENT PROPERTIES

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|-----------------------------------|------|------------------|------------------|
| Carrying amount at 1 January | | 4,434 | 6,560 |
| Loss from a fair value adjustment | 6 | (63) | (1,619) |
| Exchange realignment | | (62) | (507) |
| Carrying amount at 31 December | | 4,309 | 4,434 |

The Group's investment properties consist of two commercial properties in Chinese Mainland. The Directors of the Company have determined that the investment properties as commercial assets, based on the nature, characteristics and risks of each property.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

At 31 December 2023, the Group's investment properties with a carrying amount of HK\$4,309,000 (2022: Nil) were pledged to secure general banking facilities granted to the Group.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| | Fair value measurement as at 31 December 2023 using | | | |
|---------------------------------------|--|---|---|-------------------|
| | Quoted prices in active market (level 1) HK\$'000 | Significant observable inputs (level 2) HK\$'000 | Significant unobservable inputs (level 3) HK\$'000 | Total HK\$'000 |
| Recurring fair value measurement for: | | | | |
| Commercial properties | – | 4,309 | – | 4,309 |

| | Fair value measurement as at 31 December 2022 using | | | |
|---------------------------------------|--|---|---|-------------------|
| | Quoted prices in active market (level 1) HK\$'000 | Significant observable inputs (level 2) HK\$'000 | Significant unobservable inputs (level 3) HK\$'000 | Total HK\$'000 |
| Recurring fair value measurement for: | | | | |
| Commercial properties | – | 4,434 | – | 4,434 |

The valuation technique used in the determination of fair values of the investment properties is income approach and the significant observable inputs using in this approach are market rents and vacant rate. The higher the market rents, the higher the fair value. The higher the vacant rate, the lower the fair value.

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15. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of machinery and equipment generally have lease terms between 3 and 5 years, while motor vehicles generally have lease terms between 2 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | Note | Leasehold Land HK\$'000 | Building HK\$'000 | Machinery and equipment HK\$'000 | Total HK\$'000 |
|--|------|-------------------------------|----------------------|--|-------------------|
| As at 1 January 2022 | | 75,020 | 30,436 | 11,445 | 116,901 |
| Additions | | – | 24,786 | 8,242 | 33,028 |
| Depreciation charge | 6 | (1,389) | (18,208) | (93) | (19,690) |
| Disposal | | – | (195) | (10,842) | (11,037) |
| Exchange realignment | | (6,388) | (630) | (870) | (7,888) |
| As at 31 December 2022 and 1 January 2023 | | 67,243 | 36,189 | 7,882 | 111,314 |
| Additions | | – | 20,075 | 1,224 | 21,299 |
| Depreciation charge | 6 | (1,501) | (19,024) | (997) | (21,522) |
| Disposal | | – | (3,720) | (867) | (4,587) |
| Exchange realignment | | (952) | (100) | (99) | (1,151) |
| As at 31 December 2023 | | 64,790 | 33,420 | 7,143 | 105,353 |

As at 31 December 2023, certain of the Group's right-of-use assets with a carrying amount of approximately HK\$36,533,000 (2022: HK\$37,669,000) were pledged to secure bank loans granted to the Group (note 27).

During the year 2023 and 2022, no impairment of the Group's right-of-use assets was recognised.

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15. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------|------------------|------------------|
| Carrying amount at 1 January | | 44,337 | 32,291 |
| New leases | | 21,299 | 32,187 |
| Accretion of interest recognised during the year | 7 | 1,789 | 1,526 |
| Payments | | (23,736) | (20,566) |
| Disposal | | (3,655) | (155) |
| Exchange realignment | | (380) | (946) |
| Carrying amount at 31 December | | 39,654 | 44,337 |
| Analysed into: | | | |
| Current portion | | 17,972 | 18,505 |
| Non-current portion | | 21,682 | 25,832 |

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------|------------------|------------------|
| Interest on lease liabilities | 7 | 1,789 | 1,526 |
| Depreciation charge of right-of-use assets | 6 | 21,522 | 19,690 |
| Expense relating to short-term leases | 6 | 991 | 4,099 |
| Expense relating to leases of low-value assets | 6 | 413 | 199 |
| Variable lease payments not included in the measurement of lease liabilities | 6 | 816 | – |
| Loss/(gain) on disposal of right-of-use assets | 6 | 932 | (41) |
| Total amount recognised in profit or loss | | 26,463 | 25,473 |

(d) The total cash outflow for leases is disclosed in note 33(c) to the financial statements. The Group has no lease contracts that have not yet commenced as at 31 December 2023 (2022: Nil).

Notes to Financial Statements

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15. LEASES (continued)

The Group as a lessor

The Group leases its investment properties (note 14) consisting of two commercial properties under operating lease arrangements. Rental income recognised by the Group during the year 2023 was HK\$336,000 (2022: HK\$405,000), details of which are included in note 5 to the financial statements.

At 31 December 2023, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year | 261 | 191 |
| After one year but within two years | 135 | 168 |
| After two year but within three years | 105 | – |
| Total | 501 | 359 |

16. GOODWILL

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Goodwill | 155,685 | 155,685 |
| Impairment | (137,741) | (134,692) |
| Carrying amount at 31 December | 17,944 | 20,993 |

The movements in the loss allowance for impairment of goodwill are as follows:

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------------------------|------|------------------|------------------|
| At beginning of year | | 134,692 | 134,692 |
| Impairment recognised during the year | 6 | 3,049 | – |
| At end of year | | 137,741 | 134,692 |

Impairment testing of goodwill

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

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

Notes to Financial Statements

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16. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-----------------------------|------------------|------------------|
| Chinese herbal products CGU | 10,656 | 13,705 |
| SODX CGU | 7,288 | 7,288 |
| Total | 17,944 | 20,993 |

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

The key assumptions used for the VIU calculation of each CGU are set out as follows:

| | 31 December 2023 | |
|--|--------------------------------|----------|
| | Chinese herbal products CGU | SODX CGU |
| Compound annual growth rate within the Budget Period | 5.9% | 8.0% |
| Growth rate to extrapolate cash flows beyond the Budget Period | 2.01% | 1.80% |
| Budget gross profit margins | 46.6% | 39.1% |
| Pre-tax discount rate | 15.05% | 15.08% |

| | 31 December 2022 | |
|--|--------------------------------|----------|
| | Chinese herbal products CGU | SODX CGU |
| Compound annual growth rate within the Budget Period | 5.0% | 5.0% |
| Growth rate to extrapolate cash flows beyond the Budget Period | 2.30% | 0.73% |
| Budget gross profit margins | 55.4% | 43.5% |
| Pre-tax discount rate | 18.25% | 16.80% |

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16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Assumptions were used in the value in use calculation of each CGU as at 31 December 2023. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

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

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

Budget gross profit margins — The bases used to determine the values assigned to the budgeted gross profit margins are the average gross profit margins achieved in the year immediately before the budget year, adjusted for expected efficiency gains and expected market development. Besides, budgeted raw materials purchase prices are considered, which are the bases used to determine the values assigned to budgeted raw materials purchase prices are the forecasted price indices during the budget year for those countries where raw materials are sourced.

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

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

Impairment of goodwill

At 31 December 2023, the growth rate to extrapolate cash flows beyond the Budget Period decreased by 0.29% and pre-tax discount rate in the preparation of the cash flow projections decreased by 3.20% of Chinese herbal products CGU as compared with those adopted as at 31 December 2022, except for that the reduction of expected future output of Chinese herbal products as a result of the lower efficiency of production. Therefore, the management of the Group made provision for impairment of goodwill of HK\$3,049,000 as at 31 December 2023 according to the revised the projected cash flows in the Chinese herbal products CGU.

There are no impairment recognised for Chinese herbal products and SODX CGUs during the years ended 31 December 2022.

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17. OTHER INTANGIBLE ASSETS

| | Note | Trademarks HK\$'000 | Patents HK\$'000 | Licenses HK\$'000 | Software HK\$'000 | Total HK\$'000 |
|--|------|------------------------|---------------------|----------------------|----------------------|-------------------|
| 31 December 2023 | | | | | | |
| At 1 January 2023: | | | | | | |
| Cost | | 36,784 | 565 | 1,151 | 32,543 | 71,043 |
| Accumulated amortisation | | (16,755) | (510) | (1,151) | (14,987) | (33,403) |
| Net carrying amount | | 20,029 | 55 | – | 17,556 | 37,640 |
| Cost at 1 January 2023, net of accumulated amortisation | | | | | | |
| | | 20,029 | 55 | – | 17,556 | 37,640 |
| Additions | | 943 | – | – | 1,535 | 2,478 |
| Amortisation provided during the year | 6 | (2,321) | (18) | – | (3,019) | (5,358) |
| Exchange realignment | | – | – | – | (16) | (16) |
| At 31 December 2023 | | 18,651 | 37 | – | 16,056 | 34,744 |
| At 31 December 2023: | | | | | | |
| Cost | | 37,726 | 565 | 1,135 | 33,964 | 73,390 |
| Accumulated depreciation | | (19,075) | (528) | (1,135) | (17,908) | (38,646) |
| Net carrying amount | | 18,651 | 37 | – | 16,056 | 34,744 |

Notes to Financial Statements

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17. OTHER INTANGIBLE ASSETS (continued)

| | Note | Trademarks HK\$'000 | Patents HK\$'000 | Licenses HK\$'000 | Software HK\$'000 | Total HK\$'000 |
|---|------|------------------------|---------------------|----------------------|----------------------|-------------------|
| 31 December 2022 | | | | | | |
| At 1 January 2022: | | | | | | |
| Cost | | 34,950 | 557 | 1,281 | 33,183 | 69,971 |
| Accumulated amortisation | | (14,493) | (479) | (1,281) | (12,656) | (28,909) |
| Net carrying amount | | 20,457 | 78 | – | 20,527 | 41,062 |
| Cost at 1 January 2022, net of accumulated amortisation | | | | | | |
| | | 20,457 | 78 | – | 20,527 | 41,062 |
| Additions | | 1,838 | 8 | – | 43 | 1,889 |
| Disposal | | – | – | – | (1) | (1) |
| Amortisation provided during the year | 6 | (2,265) | (31) | – | (2,835) | (5,131) |
| Exchange realignment | | (1) | – | – | (178) | (179) |
| At 31 December 2022 | | 20,029 | 55 | – | 17,556 | 37,640 |
| At 31 December 2022: | | | | | | |
| Cost | | 36,784 | 565 | 1,151 | 32,543 | 71,043 |
| Accumulated depreciation | | (16,755) | (510) | (1,151) | (14,987) | (33,403) |
| Net carrying amount | | 20,029 | 55 | – | 17,556 | 37,640 |

During the year ended 31 December 2023, no (2022: Nil) impairment of intangible asset was recognised.

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18. INVESTMENT IN A JOINT VENTURE

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------|------------------|------------------|
| Share of net assets | 1,265 | – |

Particulars of the joint venture are as follows:

| Name | Registered capital | Place of incorporation/ registration and business | Percentage of | | | Principal activity |
|---------------------------------|--|---|--------------------|--------------|----------------|--|
| | | | Ownership interest | Voting power | Profit sharing | |
| PuraPharm Korea Company Limited | United States dollar ("US\$") 180,742 | Korea | 49.04% | 49.04% | 49.04% | Manufacture and sale of CCMG and other health products |

The following table illustrates the information of the Group's investment in a joint venture:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Share of the joint venture: | | |
| Loss and other comprehensive income for the year | (145) | – |
| Carrying amount of the Group's investment in a joint venture | 1,265 | – |

Notes to Financial Statements

31 December 2023

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Other unlisted investments, at fair value | 1,692 | 1,204 |
| Life insurance policies, at fair value | 18,733 | 18,736 |
| Total | 20,425 | 19,940 |

The Group's financial assets at fair value through profit or loss represented an unlisted equity investment and three (31 December 2022: three) life insurance policies to insure an executive director as at 31 December 2023. Under the policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for the policy and may surrender the insurance policies any time by making a written request and receive cash based on the surrender value of the policies at the date of withdrawal, which is calculated by the insurer. In the opinion of the Directors, the surrender value of the policies provided by the insurance company is the best approximation of its fair value, which is categorised within Level 3 of the fair value hierarchy. The life insurance policies were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

As at 31 December 2023 and 2022, the Group's life insurance policies were pledged as security for bank facilities granted to the Group. Further details are contained in note 27 to the financial statements.

In the opinion of the Directors, the Group's life insurance policies would not be surrendered within the next 12 months and were therefore classified as non-current assets.

20. INVENTORIES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|------------------|------------------|------------------|
| Raw materials | 48,248 | 58,667 |
| Work in progress | 27,030 | 47,010 |
| Finished goods | 106,641 | 77,335 |
| | 181,919 | 183,012 |
| Less: Provision | (6,322) | (10,632) |
| Total | 175,597 | 172,380 |

For the year ended 31 December 2023, the write-down of inventories recognised at cost of sales amounted to HK\$2,332,000 (2022: HK\$4,833,000).

At 31 December 2023, the Group's inventories with a carrying amount of HK\$27,094,000 (2022: HK\$46,425,000) were pledged as security for the loans granted to the Group (note 27).

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21. BIOLOGICAL ASSETS

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------|------------------|------------------|
| As at 1 January | | 18,432 | 64,807 |
| Addition during the year | | 16,616 | 8,517 |
| Fair value loss on biological assets, net | 6 | (16,790) | (36,656) |
| Harvest during the year | | (18,090) | (13,956) |
| Exchange realignment | | (168) | (4,280) |
| | | – | 18,432 |
| Portion classified as non-current portion | | – | – |
| Current portion | | – | 18,432 |

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\$18,090,000 (2022: HK\$13,956,000) during the year ended 31 December 2023.

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 rates of raw Chinese herbs are estimated based on the historical average district prices; and
- (v) a market-derived discount rate.

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31 December 2023

21. BIOLOGICAL ASSETS (continued)

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 Chinese medicinal materials is accompanied by a directionally similar change in the price growth rate of raw Chinese herbs per annum and the discount rate and an opposite change in the estimated production volume.

No discounted cash flow projection was made for biological assets as at 31 December 2023 due to all of the raw Chinese herbs were harvested.

22. TRADE AND BILLS RECEIVABLES

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

Note: During the year ended 31 December 2023, the Group entered into a series of bills discounted arrangements (the "Arrangements") to transfer bills receivable (the "Discounted Bills") to PRC banks or third-party company with a carrying amount in aggregate of HK\$441,000 (2022: HK\$17,451,000). Under the Arrangements, the Group may be required to reimburse the PRC banks or third-party company for loss of principal and interest if any trade debtors have default payment. In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills and other borrowings as disclosed in note 27. Due to the cash flow of bills receivable are not SPPI, the total amount of bills receivables are accounted as financial assets at fair value through other comprehensive income as at 31 December 2023 and in the opinion of the Directors, the carrying amounts of the Discounted Bills are approximate their fair values.

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

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

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

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22. TRADE AND BILLS RECEIVABLES (continued)

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

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|----------------------|------|------------------|------------------|
| At beginning of year | | 50,291 | 43,852 |
| Impairment losses | 6 | 2,727 | 10,545 |
| Exchange realignment | | (622) | (4,106) |
| At end of year | | 52,396 | 50,291 |

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

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

As at 31 December 2023

Group A

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

Group B

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

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22. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2023 (continued)

Group C

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

Group D

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

Total

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

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22. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2022

Group A

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

Group B

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

Group C

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

Group D

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

Total

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

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22. TRADE AND BILLS RECEIVABLES (continued)

At 31 December 2023, trade receivables of HK\$55,620,000 (2022: HK\$58,255,000) were pledged as security for the Group's bank loans (note 27).

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------|------------------|------------------|
| Prepayments | | 19,778 | 31,052 |
| Prepayment for acquisition of a joint venture | | – | 780 |
| Right-of-return assets | | 4,075 | 5,581 |
| Deposits and other receivables | | 26,665 | 17,073 |
| Value-added tax recoverable | | 8,244 | 2,089 |
| Amount due from related parties | | 392 | 228 |
| | | 59,154 | 56,803 |
| Less: Impairment allowance | | (3,816) | (1,544) |
| | | 55,338 | 55,259 |
| Portion classified as non-current | | (9,984) | (5,370) |
| | | 45,354 | 49,889 |

The movements in the loss allowance for impairment of other receivables are as follows:

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------|------------------|------------------|
| At 1 January | | 1,544 | 503 |
| Impairment loss recognised | 6 | 2,307 | 1,361 |
| Amount written-off as uncollectible/reversal of impairment loss | | – | (245) |
| Exchange realignment | | (35) | (75) |
| | | 3,816 | 1,544 |

The above provision for impairment of prepayments, other receivables and other assets was a provision for individually impaired other receivables of HK\$3,816,000 (2022: HK\$1,544,000) with a carrying amount before provision of HK\$3,816,000 (2022: HK\$1,544,000) as at 31 December 2023. The Group does not hold any collateral or other credit enhancements over these balances.

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default and expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The financial assets included in the above balance were categorised in stage 1 at the year of each reporting period. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the current year, except for the default receivables, the Group estimated the expected loss rate for the other receivables is minimal.

Notes to Financial Statements

31 December 2023

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Cash and bank balances | 20,126 | 75,831 |
| Restricted cash | 1,646 | 11,312 |
| Pledged deposits | 25,449 | 19,871 |
| | 47,221 | 107,014 |
| Less: Restricted cash and pledged deposits for bills payable or bank loans | (27,095) | (31,183) |
| Cash and cash equivalents | 20,126 | 75,831 |
| Denominated in RMB | 3,463 | 35,359 |
| Denominated in HK\$ | 10,182 | 33,837 |
| Denominated in US\$ | 447 | 161 |
| Denominated in JPY | 5,200 | 6,429 |
| Denominated in CAD | 20 | 9 |
| Denominated in AUD | 737 | 36 |
| Denominated in SGD | 77 | – |
| Cash and cash equivalents | 20,126 | 75,831 |

The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits earn interest at the respective time deposit rates. The pledged deposits are deposited with bills payables and bank loans with no recent history of default.

Notes to Financial Statements

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25. TRADE AND BILLS PAYABLES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|----------------|------------------|------------------|
| Trade payables | 107,757 | 103,151 |
| Bills payables | 38,622 | 34,760 |
| Total | 146,379 | 137,911 |

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

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

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

Notes to Financial Statements

31 December 2023

26. OTHER PAYABLES AND ACCRUALS

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|-----------------------------------|-------|------------------|------------------|
| Other payables | (a) | 57,746 | 50,435 |
| Accruals | | 17,565 | 18,543 |
| Contract liabilities | (b) | 2,484 | 6,414 |
| Refund liabilities | | 13,094 | 15,000 |
| Retention payable | (c) | 15,842 | 16,434 |
| Amount due to related companies | | 19 | – |
| Amount due to a director | | 7,773 | 4,586 |
| | | 114,523 | 111,412 |
| Portion classified as non-current | (c) | (14,044) | (14,248) |
| Current portion | | 100,479 | 97,164 |

Notes:

- (a) Other payables are non-interest-bearing and would be generally settled in period ranging from three months to one year.
- (b) Details of contract liabilities are as follows:

| | 31 December 2023 HK\$'000 | 31 December 2022 HK\$'000 | 1 January 2022 HK\$'000 |
|---|---------------------------------|---------------------------------|-------------------------------|
| Short-term advances received from customers | | | |
| Sale of goods | 2,137 | 6,011 | 9,868 |
| Rendering of services | 347 | 403 | 315 |
| Total contract liabilities | 2,484 | 6,414 | 10,183 |

Contract liabilities include short-term advances received for the sale of goods and rendering of services. The decrease in contract liabilities in 2023 was mainly due to the decrease in short-term advances received from customers in relation to the sale of goods and rendering of services.

- (c) The non-current portion of other payables mainly represents the retention money held by the Group with respect to the Group's plants and properties under construction which will be paid in a period over twelve months from 31 December 2023.

Notes to Financial Statements

31 December 2023

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 2023 | | | 2022 | | |
|--|-----------------------------|-----------|----------------|-----------------------------|-----------|-----------------|
| | Effective interest rate% | Maturity | HK\$'000 | Effective interest rate% | Maturity | HK\$'000 |
| Current | | | | | | |
| Bank overdraft – secured (a) | – | – | – | 4.25-5.25 | On demand | 7,710 |
| Bank loans – secured (a) | 2.80-7.65 | on demand | 145,792 | 2.25-7.00 | On demand | 153,009 |
| Bank loans – secured | 2.47-7.00 | 2024 | 89,353 | 2.31-8.00 | 2023 | 174,018 |
| Bank loans – unsecured (a) | 4.50 | on demand | 15,656 | 4.50 | On demand | 18,965 |
| Bank loans – unsecured | 6.50 | 2024 | 17,823 | 3.65-5.66 | 2023 | 23,117 |
| Other borrowings – secured | 7.06-8.00 | 2024 | 6,708 | 8.21 | 2023 | 8,208 |
| Other borrowings – unsecured | 7.00-10.00 | 2024 | 28,691 | 8.50-10.00 | 2023 | 25,113 |
| Total – current | | | 304,023 | | | 410,140 |
| Non-current | | | | | | |
| Bank loans – secured | 0.85-6.50 | 2025-2029 | 76,970 | 0.85-5.88 | 2024-2030 | 41,879 |
| Bank loans – unsecured | 1.20 | 2030 | 1,036 | – | – | – |
| Other borrowings – secured | 7.06 | 2025 | 3,087 | 6.25 | 2024-2025 | 6,801 |
| Total – non-current | | | 81,093 | | | 48,680 |
| Total | | | 385,116 | | | 458,820 |
| | | | | 2023 | | 2022 |
| | | | | HK\$'000 | | HK\$'000 |
| The carrying amount of bank loans and other borrowings repayable is set out below: | | | | | | |
| Within one year or on demand | | | | 304,023 | | 410,140 |
| In the second year | | | | 11,147 | | 9,814 |
| In the third to fifth years, inclusive | | | | 59,841 | | 21,747 |
| Beyond five years | | | | 10,105 | | 17,119 |
| Total | | | | 385,116 | | 458,820 |

The borrowings were principally denominated in Hong Kong Dollar and RMB and were at floating interest rates mainly with reference to Hong Kong Interbank Offered Rate (HIBOR) or PRC loan prime rate (LPR), respectively.

Notes to Financial Statements

31 December 2023

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Interest-bearing bank and other borrowings are denominated in:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------|------------------|------------------|
| HK\$ | 112,280 | 127,444 |
| RMB | 270,763 | 328,749 |
| JPY | 2,073 | 2,627 |
| Total | 385,116 | 458,820 |

- (a) HK Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time ("repayment on demand clause") shall be classified in total by the borrower as current in the consolidated statement of financial position. Interest-bearing bank loans of the Group in the amount of HK\$112,280,000 (2022: HK\$112,944,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$39,670,000 (2022: HK\$36,308,000) that is repayable after one year from the end of 2023 has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year. The aforesaid amount did not include the default loans without on demand clause.
- (b) As at 31 December 2023, the Group was not in compliance with certain loan covenants and repayment terms as stipulated in the agreements of the bank loans amounting to approximately HK\$93,240,000 (31 December 2022: HK\$128,804,000). Bank loans amounting to HK\$59,404,000 (31 December 2022: HK\$89,117,000), out of the HK\$93,240,000, are repayable on demand or within 12 months and have already been accounted for as current liabilities as mentioned in note 27(a); and the remaining balance of HK\$33,836,000 (31 December 2022: HK\$39,687,000) which are repayable beyond 12 months, have already been accounted for as current liabilities. Waivers for the breach of these covenants and repayment terms of the loans amounting to HK\$88,132,000 (2022: HK\$62,065,000) have been obtained subsequent to the financial statements date.
- (c) As at 31 December 2023, the Group's bank facilities including overdraft were amounting to HK\$490,593,000 (2022: HK\$543,657,000), of which HK\$385,116,000 (2022: HK\$458,820,000) had been utilised.

Notes to Financial Statements

31 December 2023

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

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

| | Notes | Carrying value | |
|---|-------|------------------|------------------|
| | | 2023 HK\$'000 | 2022 HK\$'000 |
| Property, plant and equipment | 13 | 170,336 | 177,759 |
| Investment properties | 14 | 4,309 | – |
| Right-of-use assets | 15 | 36,533 | 37,669 |
| Financial assets at fair value through profit or loss | 19 | 18,733 | 18,736 |
| Inventories | 20 | 27,094 | 46,425 |
| Trade and bills receivables | 22 | 55,620 | 58,255 |
| Pledged deposits | | 10,000 | – |
| | | 322,625 | 338,844 |

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

28. GOVERNMENT GRANTS

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|---|-------|------------------|------------------|
| At 1 January | | 1,272 | 3,510 |
| Government grants received during the year | | 9,445 | 6,310 |
| Amounts released to the statement of profit or loss | 5 | (9,453) | (8,318) |
| Exchange realignment | | (18) | (230) |
| At 31 December | | 1,246 | 1,272 |
| Portion classified as current liabilities | | (170) | (247) |
| Non-current portion | | 1,076 | 1,025 |

Notes to Financial Statements

31 December 2023

29. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax Assets

| | Lease liabilities HK\$'000 | Government grants HK\$'000 | 2023 | | Total HK\$'000 |
|--|--|-------------------------------|---|------------------------------------|-------------------|
| | | | Unrealised profit on inventories HK\$'000 | Accrual and provisions HK\$'000 | |
| As at 1 January 2023 | – | 189 | 1,644 | 9,214 | 11,047 |
| Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 10) | 5,094 | 1 | (570) | (194) | 4,331 |
| Exchange realignment | (20) | (3) | – | (122) | (145) |
| Gross deferred tax assets at 31 December 2023 | 5,074 | 187 | 1,074 | 8,898 | 15,233 |
| | | | 2022 | | |
| | Tax loss available for offsetting against future taxable profits HK\$'000 | Government grants HK\$'000 | Unrealised profit on inventories HK\$'000 | Accrual and provisions HK\$'000 | Total HK\$'000 |
| As at 1 January 2022 | 291 | 351 | 1,414 | 8,427 | 10,483 |
| Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10) | (332) | (137) | 230 | 1,619 | 1,380 |
| Exchange realignment | 41 | (25) | – | (832) | (816) |
| Gross deferred tax assets at 31 December 2022 | – | 189 | 1,644 | 9,214 | 11,047 |

Notes to Financial Statements

31 December 2023

29. DEFERRED TAX (continued)

The movements in deferred tax assets and liabilities during the year are as follows (continued):

Deferred tax liabilities

| | 2023 Depreciation and amortisation allowance in excess of related depreciation and amortisation HK\$'000 | Right-of-use assets HK\$'000 | Total HK\$'000 |
|--|--|------------------------------------|--|
| At 1 January 2023 | 3,017 | – | 3,017 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10) | (151) | 5,321 | 5,170 |
| Exchange realignment | (8) | (22) | (30) |
| Gross deferred tax liabilities at 31 December 2023 | 2,858 | 5,299 | 8,157 |
| | | | 2022 Depreciation and amortisation allowance in excess of related depreciation and amortisation HK\$'000 |
| At 1 January 2022 | | | 2,611 |
| Deferred tax charged to the statement of profit or loss during the year (note 10) | | | 456 |
| Exchange realignment | | | (50) |
| Gross deferred tax liabilities at 31 December 2022 | | | 3,017 |

Notes to Financial Statements

31 December 2023

29. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Net deferred tax assets recognised in the consolidated statement of financial position | 8,819 | 11,047 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (1,743) | (3,017) |
| | <u>7,076</u> | <u>8,030</u> |

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008. The applicable rate is 5% or 10% for the Group.

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Chinese Mainland. In the opinion of the Directors, based on the Group's expansion plan in Chinese Mainland and the cash flow generated in Hong Kong, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. As at 31 December 2023, the amounts of temporary difference associated with the investment in the subsidiary in Chinese Mainland for which deferred tax liabilities have not been recognised totaled approximately HK\$201,657,000 (2022: HK\$246,696,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements

31 December 2023

30. SHARE CAPITAL

Shares

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

Notes to Financial Statements

31 December 2023

30. SHARE CAPITAL (continued)

A summary of movements in the Company's share capital and share premium account are as follows:

| | Number of shares in issue | Share capital HK\$'000 | Share premium account HK\$'000 | Total HK\$'000 |
|--|------------------------------|------------------------------|---|-------------------|
| At 1 January 2022 | 394,892,941 | 306,042 | 221,189 | 527,231 |
| Share option exercised (note 31(a)) | 1,004,334 | 778 | 315 | 1,093 |
| Transfer of vested shares under Share Award Scheme (note 31(b)) | – | – | 67 | 67 |
| At 31 December 2022, 1 January 2023 and 31 December 2023 | 395,897,275 | 306,820 | 221,571 | 528,391 |

Notes to Financial Statements

31 December 2023

31. SHARE OPTION SCHEME AND 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, suppliers, 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 meetings 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 meetings and/or such other requirements prescribe under the Listing Rules is obtained.

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

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

On 9 May 2019, the Board of the directors of the Group 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, 16,124,000 options were granted to five directors and certain employees of the company, entitling them to subscribe for a total of 16,124,000 shares at the exercise price of HK\$0.8 per share, conditional upon the grantee accepting the grant. Among the options resolved to grant, 4 employees have not accepted 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.

Notes to Financial Statements

31 December 2023

31. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) Share option scheme (continued)

On 29 December 2022, the Board of the directors of the Group has resolved to grant share options to certain directors of the Company, entitling them to subscribe for a total of 7,700,000 ordinary shares of the Company at the exercise price of HK\$1.292 per share, conditional upon the grantee accepting the grant.

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the Scheme as an equity-settled plan.

The following share options were outstanding under the Scheme during the year:

| | 2023 | | 2022 | |
|---------------------------|--|---------------------------|--|---------------------------|
| | Weighted average exercise price HK\$ per share | Number of options '000 | Weighted average exercise price HK\$ per share | Number of options '000 |
| At 1 January | 1.35 | 24,029 | 1.24 | 21,213 |
| Granted during the year | – | – | 1.292 | 7,700 |
| Exercised during the year | – | – | 0.80 | (1,004) |
| Forfeited during the year | 0.80 | (67) | 0.80 | (3,880) |
| At 31 December | 1.35 | 23,962 | 1.35 | 24,029 |

No share option was exercised during the year ended 31 December 2023 (2022: the weighted average share price at the date of exercise for share options exercised was HK\$1.44 per share).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2023

| 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 |
| 5,388,667 | HK\$0.8 | 23 July 2022 | From vesting date to 23 July 2030 |
| 166,666 | HK\$0.8 | 23 July 2023 | From vesting date to 23 July 2030 |
| 3,850,000 | HK\$1.292 | 29 December 2023 | From vesting date to 28 December 2032 |
| 3,850,000 | HK\$1.292 | 29 December 2024 | From vesting date to 28 December 2032 |
| 23,962,424 | | | |

Notes to Financial Statements

31 December 2023

31. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) Share option scheme (continued)

2022

| 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 |
| 3,850,000 | HK\$1.292 | 29 December 2023 | From vesting date to 28 December 2032 |
| 3,850,000 | HK\$1.292 | 29 December 2024 | From vesting date to 28 December 2032 |
| <u>24,029,091</u> | | | |

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

No share option was granted during the year ended 31 December 2023.

Details of the share option expenses during the year ended 31 December 2023 and 2022 are listed as below:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Gross amount of share option expenses | 4,291 | 730 |
| Share option forfeited during the year | – | (501) |
| Net share option expenses recognised during the year | 4,291 | 229 |
| Less: Included in directors' remuneration (note 8) | (4,274) | (171) |
| Employee benefit expenses | 17 | 58 |

As at 31 December 2023, the Company had 23,962,424 (31 December 2022: 24,029,091) share options outstanding under the Scheme, which represented approximately 6.1% (31 December 2022: 6.1%) 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 23,962,424 (31 December 2022: 24,029,091) additional ordinary shares of the Company and additional equity amount of HK\$32,371,825 (31 December 2022: HK\$32,442,000) (before share issue expenses).

Notes to Financial Statements

31 December 2023

31. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(b) Shares held for the share award scheme

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

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

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

Shareholdings of Share Award Scheme Trust

As at 31 December 2023, the Share Award Scheme Trust held 844,335 (31 December 2022: 844,335) shares of the Company. During the year ended 31 December 2023, no share (2022: Nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and no share (2022: 115,000) was vested.

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 during the year ended 31 December 2022. No award share was granted during the year ended 31 December 2023.

Notes to Financial Statements

31 December 2023

31. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

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

Granted Award shares (continued)

Summary of the Award Shares granted during the year ended 31 December 2022 is as follows:

| Date of Grant | Number of outstanding Awarded Shares as at the Date of Grant | Fair value HK\$'000 | Vesting Date | Number of Awarded Shares | | | | Outstanding as at 31 December 2022 |
|----------------|--|---------------------|------------------|-------------------------------|----------------------------------|--------------------------------|-----------------------------------|------------------------------------|
| | | | | Vested during the prior years | Forfeited during the prior years | Vested during the current year | Forfeited during the current year | |
| 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) | - | - | - |
| | 3,050,000 | 8,347 | | (2,061,665) | (843,335) | (115,000) | (30,000) | - |

Details of the equity-settled share award expenses of the Group during the years ended 31 December 2023 and 2022 are listed as below:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Gross amount of share award expenses | - | 49 |
| Forfeited during the year | - | (10) |
| Net share award expenses recognised during the year | - | 39 |
| Less: Included in directors' remuneration (note 8) | - | (17) |
| Employee benefit expenses | - | 22 |

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32. RESERVES

Surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the companies now comprising the Group which are registered in the PRC shall appropriate a certain percentage of their net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. When the balance of this reserve fund reaches 50% of the entities' capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages. After making the appropriation to the statutory surplus reserve, the Company may also appropriate its profit for the year to the discretionary surplus reserve upon approval by the Board or the shareholders in general meetings.

Capital reserve

Capital reserve represented additional contributions made by the shareholders of the Company's subsidiaries and, in the case of an acquisition of an additional non-controlling interest of a subsidiary, the difference between the cost of acquisition and the non-controlling interest acquired.

Merger reserve

The merger reserve represented the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired and the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation undergone by the Group.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2023, harvested raw Chinese herbs of HK\$18,090,000 (2022: HK\$13,956,000) were transferred to inventories.

During the year ended 31 December 2023, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$21,299,000 (2022: HK\$33,028,000) and HK\$21,299,000 (2022: HK\$32,187,000), respectively, in respect of lease arrangements for land and buildings, machinery and equipment.

During the year ended 31 December 2023, the Group had offset the trade receivables of HK\$1,798,000 (2022: HK\$2,770,000) with trade payables of HK\$1,493,000 (2022: HK\$2,770,000) and other payables and accruals of HK\$305,000 (2022: Nil) respectively, in respect of the offsetting arrangements with these customers.

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities:

2023

| | Lease liabilities HK\$'000 | Interest Payable HK\$'000 | Bank loan and other borrowings HK\$'000 |
|---------------------------------------|-------------------------------|---------------------------------|--|
| At 1 January 2023 | 44,337 | 1,159 | 458,820 |
| Changes from net financing cash flows | (23,736) | (25,633) | (74,761) |
| Interest expense | 1,789 | 25,618 | – |
| New leases | 21,299 | – | – |
| Disposal | (3,655) | – | – |
| Exchange realignment | (380) | (16) | 1,057 |
| At 31 December 2023 | 39,654 | 1,128 | 385,116 |

2022

| | Lease liabilities HK\$'000 | Interest Payable HK\$'000 | Bank loan and other borrowings HK\$'000 |
|---------------------------------------|-------------------------------|---------------------------------|--|
| At 1 January 2022 | 32,291 | 1,839 | 499,668 |
| Changes from net financing cash flows | (20,566) | (22,657) | 2,216 |
| Interest expense | 1,526 | 22,657 | – |
| New leases | 32,187 | – | – |
| Disposal | (155) | – | – |
| Exchange realignment | (946) | (680) | (43,064) |
| At 31 December 2022 | 44,337 | 1,159 | 458,820 |

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-----------------------------|------------------|------------------|
| Within operating activities | 2,220 | 4,298 |
| Within investing activities | – | 841 |
| Within financing activities | 23,736 | 20,566 |
| Total | 25,956 | 25,705 |

34. COMMITMENTS

The Group had the following contractual commitments at the end of the reporting period:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------|------------------|------------------|
| Buildings | 27,423 | 24,245 |
| Plant and machinery | – | 196 |
| Total | 27,423 | 24,441 |

35. CONTINGENT LIABILITIES

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

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36. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

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

| Name of related parties | Relationship |
|--|--|
| Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan") | Director of the Company |
| Ms. Man Yee Wai, Viola | Director of the Company |
| Dr. Hisayoshi Norimoto* | Director of the Company |
| HerbMiners Informatics Ltd. ("HerbMiners") | Company controlled by Mr. Abraham Chan |
| BAGI Research Limited ("BAGI Research") | Company controlled by Mr. Abraham Chan |
| BAGI Biosciences Limited ("BAGI Bio") | Company controlled by Mr. Abraham Chan |
| Petzup Laboratories Limited ("Petzup") | Company controlled by Gold Sparkle Ltd. & Gold Sparkle Ltd. is controlled by Mr. Abraham Chan |
| Purapharm Corporation Limited | Company controlled by Joint Partners Investments Limited. & Joint Partners Investments Limited. is controlled by Mr. Abraham Chan & Ms. Man Yee Wai, Viola |

* Dr. Hisayoshi Norimoto was ceased to be a director of the Company on 20 November 2023.

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36. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions during the reporting period are as follows:

| | Notes | 2023 HK\$'000 | 2022 HK\$'000 |
|---|-------|------------------|------------------|
| Loan from a director | (i) | 8,622 | 10,971 |
| Interest expense to a director | (i) | 340 | 88 |
| Amount due from a director | (i) | 7,220 | 6,473 |
| Software licence fee and IT service fee | (ii) | 574 | 1,157 |
| Professional service fees | (iii) | 487 | – |
| | | 17,243 | 18,689 |

Notes:

- (i) The Group's subsidiary entered into a loan agreement with Mr. Abraham Chan during the year 2022, in which Mr. Abraham Chan agreed to make a loan of RMB9,800,000 (approximately equivalent to HK\$10,971,000) for financing the general corporate funding requirements with a 2-year maturity. The interest income in relation to the aforesaid loan was at the rate of 5% per annum which is determined according to the prices and conditions similar to loans offered by the banks to the Group. Besides, another subsidiary of the Group has an amount due from Mr. Abraham Chan of HK\$6,449,000 as at 31 December 2022.

The Group had offset the aforesaid loan with amount due from Mr. Abraham Chan of HK\$6,449,000 and HK\$6,449,000 respectively, in respect of the offsetting arrangement.

During the year 2023, the Group's subsidiary entered into another loan agreement with Mr. Abraham Chan in which Mr. Abraham Chan agreed to make a loan of RMB7,250,000 (approximately equivalent to HK\$8,025,000) for financing the general corporate funding requirements with a 1-year maturity. The interest income in relation to the aforesaid loan was at the rate of 5% per annum which is determined according to the prices and conditions similar to loans offered by the banks to the Group. Besides, another subsidiary of the Group has an amount due from Mr. Abraham Chan of HK\$7,220,000 as at 31 December 2023.

The Group had offset the aforesaid loan with amount due from Mr. Abraham Chan of HK\$7,220,000 and HK\$7,220,000 respectively, in respect of the offsetting arrangement.

- (ii) The software licence fee and IT service fee were paid to HerbMiners at prices mutually agreed by both parties. The Directors consider that the service charges were in line with those offered by the supplier to its other customers.
- (iii) The professional service fees were paid to BAGI Research and BAGI Bio at prices mutually agreed by both parties. The Directors consider that the service charges were in line with those offered by the supplier to its other customers.

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36. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balance with related parties:

| | 2023 | | 2022 | |
|---------------------------------|----------|--|----------|--|
| | HK\$'000 | Maximum amount outstanding HK\$'000 | HK\$'000 | Maximum amount outstanding HK\$'000 |
| Loan from a director | | | | |
| Mr. Abraham Chan | 6,876 | 9,783 | 4,610 | 11,059 |
| Amount due to related parties | | | | |
| PetzUp Laboratories Ltd | 19 | 19 | – | – |
| Mr. Abraham Chan | 897 | 897 | – | – |
| Amount due from related parties | | | | |
| Ms. Man Yee Wai, Viola | 3 | 3 | – | – |
| Mr. Abraham Chan | – | – | 24 | 6,473 |
| HerbMiners | – | – | – | 247 |
| PetzUp Laboratories Ltd | 254 | 254 | 115 | 115 |
| Bagi Canada Corp | 22 | 22 | – | – |
| Purapharm Corporation Limited | 113 | 113 | 113 | 113 |

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

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Salaries, allowances and benefits in kind | 10,763 | 9,972 |
| Equity-settled share award and share option expenses | 4,274 | 353 |
| Pension scheme contributions | 109 | 112 |
| Total | 15,146 | 10,437 |

Notes to Financial Statements

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37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2023

Financial assets

| | Financial assets at fair value through profit or loss HK\$'000 | Financial assets at fair value through other comprehensive income HK\$'000 | Financial assets at amortised cost HK\$'000 | Total HK\$'000 |
|--|--|---|--|-------------------|
| Financial assets at fair value through profit or loss | 20,425 | – | – | 20,425 |
| Bills receivable | – | 993 | – | 993 |
| Trade receivables | – | – | 79,877 | 79,877 |
| Financial assets included in prepayments, other receivables and other assets | – | – | 23,241 | 23,241 |
| Restricted cash and pledged deposits | – | – | 27,095 | 27,095 |
| Cash and cash equivalents | – | – | 20,126 | 20,126 |
| Total | 20,425 | 993 | 150,339 | 171,757 |

Financial liabilities

| | Financial liabilities at amortised cost HK\$'000 |
|---|--|
| Trade and bills payables | 146,379 |
| Financial liabilities included in other payables and accruals | 65,189 |
| Loan from a director | 6,876 |
| Lease liabilities | 39,654 |
| Interest-bearing bank and other borrowings | 385,116 |
| Total | 643,214 |

Notes to Financial Statements

31 December 2023

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2022

Financial assets

| | Financial assets at fair value through profit or loss HK\$'000 | Financial assets at fair value through other comprehensive income HK\$'000 | Financial assets at amortised cost HK\$'000 | Total HK\$'000 |
|--|--|--|---|-------------------|
| Financial assets at fair value through profit or loss | 19,940 | – | – | 19,940 |
| Bills receivable | – | 18,346 | – | 18,346 |
| Trade receivables | – | – | 113,520 | 113,520 |
| Financial assets included in prepayments, other receivables and other assets | – | – | 11,996 | 11,996 |
| Restricted cash and pledged deposits | – | – | 31,183 | 31,183 |
| Cash and cash equivalents | – | – | 75,831 | 75,831 |
| Total | 19,940 | 18,346 | 232,530 | 270,816 |

Financial liabilities

| | Financial liabilities at amortised cost HK\$'000 |
|---|--|
| Trade and bills payables | 137,911 |
| Financial liabilities included in other payables and accruals | 57,691 |
| Loan from a director | 4,610 |
| Lease liabilities | 44,337 |
| Interest-bearing bank and other borrowings | 458,820 |
| Total | 703,369 |

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments in above tables in note 36 were reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, restricted cash and pledged deposits, trade and bills receivables, trade and bills payables, amount due from related parties, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Non-current interest-bearing bank borrowings and lease liabilities

The fair values have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Bills receivable accounted as financial asset at fair value through other comprehensive income

The fair value was categorised within Level 2 and has been estimated based on the significant observable inputs, such as discount rate and expected future cash flows.

Financial asset at fair value through profit or loss

Other unlisted investments – The fair value was categorised within Level 3 and was determined by recent transaction prices for the unlisted equity.

Life insurance policies – The fair value was categorised within Level 3 and was mainly affected by its surrender value as the directors expected the other unobservable inputs such as insurance risk would not have significant impact on the fair value of the insurance policy. The surrender value of the insurance policy was obtained from the insurance company without any adjustment. The directors believe that the estimated fair value and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of the reporting period.

Investment properties

The fair value was categorised within Level 2 and has been estimated based on the significant observable inputs, such as the policies as disclosed in note 14 to the financial statements.

Biological assets

The fair value was categorised within Level 3 and has been estimated based on the significant unobservable inputs, such as the policies as disclosed in note 21 to the financial statements.

There were no transfers of fair value measurements during the years ended 31 December 2023 and 2022.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings, financial assets through profit or loss and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate of 100 basis points, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

Increase/(decrease) in the Group's profit before tax

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------------------|------------------|------------------|
| If decrease by 100 basis points | 2,356 | 2,371 |
| If increase by 100 basis points | (2,356) | (2,371) |

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity for the years ended 31 December 2023 and 2022 to a reasonably possible change by 5% in the HK\$ exchange rates against RMB and Japanese Yen ("JPY"), with all other variables held constant, of the Group's profit before tax due to changes in the fair values of monetary assets and liabilities.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| If RMB weakens against HK\$ by 5% Increase in profit before tax | 17,871 | 13,110 |
| If RMB strengthens against HK\$ by 5% Decrease in profit before tax | (17,871) | (13,110) |
| If JPY weakens against HK\$ by 5% Decrease in profit before tax | (151) | (190) |
| If JPY strengthens against HK\$ by 5% Increase in profit before tax | 151 | 190 |

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2023

| | 12-months ECLs | Lifetime ECLs | | | Total HK\$'000 |
|--|---------------------|---------------------|---------------------|------------------------------------|-------------------|
| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Simplified Approach HK\$'000 | |
| Trade and bills receivables* | 993 | – | – | 132,273 | 133,266 |
| Financial assets included in prepayments, other receivables and other assets | | | | | |
| – Normal** | 27,057 | – | – | – | 27,057 |
| Restricted cash and pledged deposits | | | | | |
| – Not yet past due | 27,095 | – | – | – | 27,095 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 20,126 | – | – | – | 20,126 |
| | 75,271 | – | – | 132,273 | 207,544 |

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2022

| | 12-months ECLs | | Lifetime ECLs | | Total HK\$'000 |
|--|---------------------|---------------------|---------------------|------------------------------------|-------------------|
| | Stage 1 HK\$'000 | Stage 2 HK\$'000 | Stage 3 HK\$'000 | Simplified Approach HK\$'000 | |
| Trade and bills receivables* | 18,346 | – | – | 163,811 | 182,157 |
| Financial assets included in prepayments, other receivables and other assets | | | | | |
| – Normal** | 11,996 | – | – | – | 11,996 |
| Restricted cash and pledged deposits | | | | | |
| – Not yet past due | 31,183 | – | – | – | 31,183 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 75,831 | – | – | – | 75,831 |
| | 137,356 | – | – | 163,811 | 301,167 |

* For trade and bills receivables to which the Group applies the general and simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of the amount due from related parties and financial assets included in prepayments, other receivables and other assets are considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and lease liabilities. Cash flows are being closely monitored on an ongoing basis.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | 2023 | | | | | Total HK\$'000 |
|---|--------------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------|
| | On demand HK\$'000 | Less than 3 months HK\$'000 | 3 to 12 months HK\$'000 | 1 to 5 years HK\$'000 | Over 5 years HK\$'000 | |
| Interest-bearing bank and other borrowings | 167,102 | 36,875 | 110,744 | 90,124 | 12,127 | 416,972 |
| Trade and bills payables | – | 146,379 | – | – | – | 146,379 |
| Other payables | – | – | 65,189 | – | – | 65,189 |
| Loan from a director | – | – | 7,220 | – | – | 7,220 |
| Lease liabilities | – | 5,514 | 14,882 | 20,000 | 3,547 | 43,943 |
| Total | 167,102 | 188,768 | 198,035 | 110,124 | 15,674 | 679,703 |

| | 2022 | | | | | Total HK\$'000 |
|---|--------------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------|
| | On demand HK\$'000 | Less than 3 months HK\$'000 | 3 to 12 months HK\$'000 | 1 to 5 years HK\$'000 | Over 5 years HK\$'000 | |
| Interest-bearing bank and other borrowings | 183,099 | 60,546 | 182,074 | 49,674 | 22,837 | 498,230 |
| Trade and bills payables | – | 137,911 | – | – | – | 137,911 |
| Other payables | – | – | 57,691 | – | – | 57,691 |
| Loan from a director | – | – | – | 5,045 | – | 5,045 |
| Lease liabilities | – | 5,310 | 14,564 | 28,272 | 86 | 48,232 |
| Total | 183,099 | 203,767 | 254,329 | 82,991 | 22,923 | 747,109 |

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31 December 2023

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Note: As at 31 December 2023, interest-bearing bank borrowings in the amount of HK\$161,448,000 (2022: HK\$179,684,000) included a repayment on demand clause in the loan agreements giving the banks the unconditional right to call in the loans at any time; or were not in compliance with certain financial loan covenants and the respective cash loans would become callable, therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

Notwithstanding the above clause, the Directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the end of the reporting period, the Group's compliance with the loan covenants, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the contractual undiscounted payments as at 31 December 2023 and 2022 are as follows:

| Year ended 31 December | On demand HK\$'000 | Less than 3 months HK\$'000 | 3 to 12 months HK\$'000 | 1 to 5 years HK\$'000 | Over 5 years HK\$'000 | Total HK\$'000 |
|---------------------------|--------------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-------------------|
| 2023 | 117,934 | 42,071 | 125,477 | 119,363 | 12,127 | 416,972 |
| 2022 | 116,359 | 60,546 | 197,209 | 101,279 | 22,837 | 498,230 |

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2023.

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent. Net debt includes interest-bearing bank borrowings and loans from a director. The gearing ratios as at the end of the reporting periods were as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Interest-bearing bank and other borrowings | 385,116 | 458,820 |
| Net debt | 385,116 | 458,820 |
| Equity attributable to owners of the parent | 153,236 | 258,289 |
| Gearing ratio | 2.5 | 1.8 |

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| CURRENT ASSETS | | |
| Prepayments, other receivables and other assets | 258,956 | 391,527 |
| Cash and cash equivalents | 33 | 94 |
| Total current assets | 258,989 | 391,621 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | 700 | 944 |
| Interest-bearing bank and other borrowings | – | 3,500 |
| Total current liabilities | 700 | 4,444 |
| NET CURRENT ASSETS | 258,289 | 387,177 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 258,289 | 387,177 |
| Net assets | 258,289 | 387,177 |
| EQUITY (note) | | |
| Share capital | 306,820 | 306,820 |
| Shares held for share award scheme | (2,859) | (2,859) |
| Reserves | (45,672) | 83,216 |
| Total equity | 258,289 | 387,177 |

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31 December 2023

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's equity is as follows:

| | Share capital HK\$'000 | Share premium HK\$'000 | Shares held for share award scheme HK\$'000 | Reserve for share award and share option HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|---------------------------|------------------------------|--|---|-----------------------------------|-------------------|
| At 1 January 2022 | 306,042 | 221,189* | (3,221) | 10,019* | (104,767)* | 429,262 |
| Loss for the year | - | - | - | - | (43,156) | (43,156) |
| Recognition of equity-settled share award expenses | - | - | - | 49 | - | 49 |
| Exercising of share option | 778 | 315 | - | (290) | - | 803 |
| Transfer of vested shares under Share Award Scheme | - | 67 | 362 | (429) | - | - |
| Recognition of equity-settled share option expenses | - | - | - | 730 | - | 730 |
| Forfeiting of share award under Share Award Scheme | - | - | - | (10) | - | (10) |
| Forfeiting of share option | - | - | - | (1,119) | 618 | (501) |
| At 31 December 2022 and at 1 January 2023 | 306,820 | 221,571* | (2,859) | 8,950* | (147,305)* | 387,177 |
| Loss for the year | - | - | - | - | (133,179) | (133,179) |
| Recognition of equity-settled share option expenses | - | - | - | 4,291 | - | 4,291 |
| Forfeiting of share option | - | - | - | (19) | 19 | - |
| At 31 December 2023 | 306,820 | 221,571* | (2,859) | 13,222* | (280,465)* | 258,289 |

* These reserve accounts comprise the negative reserves of HK\$45,672,000 (2022: reserves of HK\$83,216,000) in the statement of financial position of the Company.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 28 March 2024.

Particulars of Properties

31 December 2023

INVESTMENT PROPERTIES

| Location | Use | Tenure | Attributable interest of the Group |
|--|--------|-------------------|------------------------------------|
| No.111, Level 1, Unit 2, A8, Greenland Central Plaza, Qingxiu District, Nanning, China | Clinic | Medium term lease | 100% |
| No. A-101, Greenland Huadu International, 39 Pingle Avenue, Liangqing District, Nanning, China | Clinic | Medium term lease | 100% |

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

| | Year ended 31 December | | | | |
|--|------------------------|------------------|------------------|------------------|------------------|
| | 2023 HK\$'000 | 2022 HK\$'000 | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 |
| RESULTS | | | | | |
| REVENUE | 406,859 | 448,069 | 659,592 | 601,815 | 695,879 |
| Cost of sales | (190,230) | (185,365) | (236,239) | (231,866) | (297,040) |
| Gross profit | 216,629 | 262,704 | 423,353 | 369,949 | 398,839 |
| Other income and gains | 15,151 | 15,990 | 12,502 | 94,727 | 17,467 |
| Selling and distribution expenses | (91,658) | (157,383) | (220,006) | (210,539) | (226,212) |
| Administrative expenses | (171,520) | (157,915) | (168,451) | (153,457) | (228,482) |
| Share of loss of a joint venture | (145) | – | – | – | – |
| Impairment loss on property, plant and equipment | (12,804) | (3,022) | – | (229) | (19,063) |
| Impairment loss on right-of-use assets | – | – | – | – | (22,380) |
| Impairment loss on goodwill | (3,049) | – | (67,346) | – | (67,346) |
| Impairment loss on financial assets, net | (5,034) | (11,906) | (17,278) | (10,831) | (5,391) |
| Other expenses | (22,475) | (43,467) | (52,939) | (22,573) | (36,379) |
| Finance costs | (27,407) | (24,183) | (27,027) | (26,830) | (27,203) |
| (LOSS)/PROFIT BEFORE TAX | (102,312) | (119,182) | (117,192) | 40,217 | (216,150) |
| Income tax expense | (3,769) | (1,032) | (4,685) | (8,507) | (11,108) |
| (LOSS)/PROFIT FOR THE YEAR | (106,081) | (120,214) | (121,877) | 31,710 | (227,258) |
| Attributable to: Owners of the parent | (106,081) | (120,214) | (121,877) | 31,710 | (227,258) |
| ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS | | | | | |
| TOTAL ASSETS | 843,963 | 1,016,497 | 1,205,863 | 1,374,577 | 1,222,242 |
| TOTAL LIABILITIES | (690,727) | (758,208) | (804,305) | (862,919) | (860,119) |
| | 153,236 | 258,289 | 401,558 | 511,658 | 362,123 |









PuraPharm

Chinese Medicine Modernized

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