



PuraPharm

2018 INTERIM REPORT 中期報告

PuraPharm Corporation Limited
培力控股有限公司

Stock code 股票代號 : 1498



PuraPharm

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Corporate Information

Executive Directors

Mr. Chan Yu Ling, Abraham (*Chairman*)
Dr. Tsoi Kam Biu, Alvin (*Vice-Chairman*)
Mr. Chan Kin Man, Eddie
Ms. Man Yee Wai, Viola
Mr. Chan Lung Sung (retired on 25 May 2018)

Non-Executive Director

Mr. Chow Stanley (with effective from 28 August 2018)

Independent Non-Executive Directors

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

Audit Committee

Mr. Ho Kwok Wah, George (*Chairman*)
Dr. Chan Kin Keung, Eugene
Dr. Leung Lim Kin, Simon

Nomination Committee

Mr. Chan Yu Ling, Abraham (*Chairman*)
Dr. Chan Kin Keung, Eugene
Dr. Leung Lim Kin, Simon

Remuneration Committee

Dr. Chan Kin Keung, Eugene (*Chairman*)
Dr. Tsoi Kam Biu, Alvin
Prof. Tsui Lap Chee

Scientific Advisory Committee

Prof. Paul Vanhoutte (*Chairman*)
 Prof. Rudolf Bauer
 Prof. Piu Chan
 Prof. Peter Hylands
 Prof. Liang Song Ming
 Mr. Lin Jinn Sin
 Prof. Bruce Robinson

Company Secretary

Mr. Lau Ka Kuen

Authorized Representatives

Mr. Chan Yu Ling, Abraham
 Mr. Lau Ka Kuen

Investor Relations

Mr. Lau Ka Kuen

Auditor

Ernst & Young
 Certified Public Accountants

Legal Advisors

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

Registered Office

Offshore Incorporations (Cayman) Limited
 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

Suite 4002, Jardine House
 1 Connaught Place, Central
 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

Estera Trust (Cayman) Limited
 Clifton House, 75 Fort Street
 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

Chairman's Statement

Dear Shareholders,

Results for the first half of 2018 was strong. During the Reporting Period, the Group recorded a revenue of HK\$386.6 million, an increase of HK\$123.5 million or 46.9% comparing to the same period in 2017. Net profit increased by HK\$4.2 million or 46.1% as compared to the same period in 2017.

In 2017, we have revamped our sales strategy for Concentrated Chinese Medicine Granules ("CCMG") business in China, and such move has led to a temporary decline in sales growth and profitability in 2017. In the first half of 2018, our revamped sales strategy was proven to be successful as we regained the sales momentum for China CCMG business, demonstrated by a HK\$70.5 million or 73.7% revenue growth.

Prospects

The China market of the CCMG business continues to be challenging with keen price competition. We will continue our sales strategy by focusing on a few selected regions in China and at the same time strengthening the support to our distributors and hospitals.

To fuel the future growth and to perfect our supply chain, we have completed three strategic acquisitions in Guizhou, U.S. and Japan, respectively, in 2017. The newly acquired businesses all performed well and contributed a stable revenue and profit to the Group. In 2018, we will continue to integrate and synergize these newly acquired businesses into the Group to foster new growth.

Clinic segment is an important growth driver for the Group. The number of Nong's® (農本方®) Chinese medicine clinics operated by the Group increased from 14 clinics as at 30 June 2015 to 67 clinics as at 30 June 2018, and the 6-month revenue contribution from clinic segment increased from HK\$5.6 million in 2015 to HK\$45.0 million in 2018. The Group continues to be the market leader in CCMG product as well as the largest Chinese medicine clinic chain in Hong Kong. In 2018, the Group will further optimise its clinic network in Hong Kong and enhance its profitability by disposing those loss-making clinics and replace them by new clinics in a more promising location with higher potential.

The Group is currently operating one Nong's® (農本方®) Chinese medicine clinic in China, located in Nanning, Guangxi Zhuang Autonomous Region. It is the first Hong Kong-funded medical institution obtained approval to operate in Guangxi under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). The Group's second Nong's® (農本方®) Chinese medicine clinic in China under CEPA will be located in Shanghai and is expected to commence operation in the last quarter of 2018.

China market will be the future growth engine of the Group's clinic business. The Group will speed up its pace in opening more Nong's® (農本方®) Chinese medicine clinics in China by capitalising on its extensive operational experience in clinic management and its unique modernized model in providing Chinese medicine diagnosis and treatment services. We will also leverage our knowhow in utilizing healthcare and medical big data to deliver the best diagnosis and the most effective treatment services to local residents.

Appreciation

Last but not least, I wish to express my sincere appreciation to the shareholders, customers and business partners for their unwavering support and trust over the years. I would also like to extend my heartfelt gratitude to my fellow directors and our employees for their dedication.

By Order of the Board

Chan Yu Ling, Abraham
Chairman

Hong Kong, 27 August 2018

Management Discussion and Analysis

Financial Highlight

	Six months ended 30 June					
	2018		2017		Change	
	Revenue HK\$'000	% of total	Revenue HK\$'000	% of total	HK\$'000	%
China CCMG	166,107	43.0%	95,616	36.3%	70,491	73.7%
Hong Kong CCMG	83,793	21.7%	86,772	33.0%	(2,979)	(3.4%)
Chinese Healthcare products	48,555	12.6%	34,076	13.0%	14,479	42.5%
Nong's® (農本方®) Chinese medicine clinics	44,980	11.6%	36,303	13.8%	8,677	23.9%
Plantation	43,169	11.1%	10,326	3.9%	32,843	318.1%
Total	386,604	100.0%	263,093	100.0%	123,511	46.9%
Profit for the period	13,348		9,138		4,210	46.1%
Profit margin	3.5%		3.5%			

The Group's revenue for the six months ended 30 June 2018 was HK\$386.6 million, representing an increase of HK\$123.5 million or 46.9% compared to HK\$263.1 million for the corresponding period in last year. The revenue growth was mainly attributable to (i) the growth of the Group's CCMG products in China market, (ii) continued growth of the Group's Nong's® (農本方®) Chinese medicine clinics in Hong Kong, and (iii) fully consolidation of the results of 2017 newly acquired subsidiaries, in which the new subsidiaries in Guizhou, Japan and U.S. together contributed HK\$65.6 million in total to the Group's overall revenue.

The Group's profit for the six months ended 30 June 2018 increased by HK\$4.2 million or 46.1% as compared to HK\$9.1 million for the corresponding period in last year. The increase in profit was primarily attributable to (i) an increase in fair value gain on the Group's biological assets as compared to the corresponding period ended 30 June 2017 based on a valuation of the biological assets as of 30 June 2018, (ii) an increase in the profit contribution from China CCMG segment as compared to the corresponding period ended 30 June 2017, and (iii) profit contributed by the newly acquired subsidiaries in 2017. The increase in the profit was partially offset by HK\$6.5 million once-off expenses for organisation restructuring project.

Financial Review

Sales performance by segment

China CCMG

For the six months ended 30 June 2018, the sales of CCMG in China was HK\$166.1 million, representing an increase of HK\$70.5 million or 73.7% compared to HK\$95.6 million for the corresponding period in last year.

The increase was mainly attributed to the increase in sales quantity to both direct sales customers and distributorship sales, especially the distributorship sales experienced a rapid sales growth of more than double in sales quantity than the corresponding period of last year. During the six month ended 30 June 2018, direct sales customers maintained a revenue growth of about 30% and accounted for about 50% of the total revenue in China CCMG segment.

During the six months ended 30 June 2018, the Group has revamped its sales strategy by focusing on business development in selected regions of China and strengthening the support to both distributors and direct sales hospitals. In order to accelerate the sales growth in China, the Group continued to devote more selling and distribution expenses to strengthen the promotion of the Group's products and brands in China, and provide more marketing resources to support both the direct sales customers and the distributors, to expand the Group's CCMG business in China market. As a result, more new customers were developed and sales to existing customers continued to grow.

HK CCMG

The Group continued to maintain its leading market position in Hong Kong and sell its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the six months ended 30 June 2018, the direct sales of CCMG products in Hong Kong was HK\$83.8 million, representing a decrease of HK\$3.0 million or 3.4% compared to HK\$86.8 million for the corresponding period in last year. Such decrease was mainly attributable to sales decline to the hospitals under the management of Hong Kong Hospital Authority ("HKHA"), as the supply contract with HKHA expired in March 2018. The sales decline to HKHA was partially offset by the increase in sales to private Chinese medicine practitioners.

During the six months ended 30 June 2018, the Group remained as a CCMG supplier to the major non-profit organisations in Hong Kong, and continued to expand its customer base in private Chinese medicine practitioners sector. As a result, the Group sales to private Chinese medicine practitioners recorded a growth of 10.3% and accounted for about 50% of the Group's HK CCMG segment revenue.

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

During the six months ended 30 June 2018, the sales of CCMG products and provision of Chinese medical diagnostic services from the Group's Nong's® (農本方®) Chinese medicine clinics generated revenue of HK\$45.0 million in aggregate, representing an increase of HK\$8.7 million or 23.9% compared to HK\$36.3 million for the corresponding period in last year, which was mainly attributable to the expansion of the Nong's® (農本方®) Chinese medicine clinics network, from 59 clinics as at 30 June 2017 to 67 clinics as at 30 June 2018. The Group continues to be the largest Chinese medicine clinic chain in Hong Kong.

During the six months ended 30 June 2018, the Group reassessed the performance of the existing clinics network in Hong Kong and disposed of some non-performing clinics. The Group will further optimise the clinic network in Hong Kong and enhance its profitability by disposing those loss-making clinics and replace them by new clinics in a more promising location with higher potential.

Management Discussion and Analysis

As at 30 June 2018, the Group operates one Nong's® (農本方®) Chinese medicine clinic in Nanning, Guangxi Zhuang Autonomous Region. It is the first Hong Kong-funded medical institution obtained approval to operate in Guangxi under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). The Group's second China Nong's® (農本方®) Chinese medicine clinic in China under CEPA will be located in Shanghai and is in final pre-operation preparation, and is expected to commence business in the last quarter of 2018.

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

Chinese healthcare products

During the six months ended 30 June 2018, revenue from sales of Chinese healthcare products was HK\$48.6 million, representing an increase of HK\$14.5 million or 42.5% compared to HK\$34.1 million for the corresponding period in last year.

Such revenue growth was mainly attributable to fully consolidation of K'an Herbs Inc. ("Kan"), a U.S. based Chinese herbal products company and SODX Co., Ltd. ("SODX"), a Japan based health food products company. Kan and SODX contributed HK\$17.7 million and HK\$4.7 million, respectively, to the Group's total revenue. For the corresponding period in last year, only HK\$9.8 million revenue was contributed by Kan since the completion date on 7 March 2017.

Apart from the revenue growth in U.S. and Japan markets, the Group's existing Chinese healthcare products recorded a revenue growth of HK\$1.9 million or 7.7% for the six months ended 30 June 2018 compared to HK\$24.3 million for the corresponding period in last year. The revenue growth of the Group's existing Chinese healthcare products was mainly attributed to the outstanding growth of the Nong's series over-the-counter products, as a result of the continued marketing effort to increase the brand awareness of the Group's Chinese healthcare products.

Plantation

For the six months ended 30 June 2018, the upstream plantation segment contributed HK\$43.2 million to the Group's overall revenue, higher than the corresponding period in last year of HK\$10.3 million by HK\$32.8 million or 318.1%. As the TCM decoction pieces production facilities are still under construction, the revenue from the plantation segment was mainly attributed to the plantation and trading of raw Chinese herbs.

The increase in revenue from the plantation segment was mainly attributable to (i) fully consolidation of the result of the subsidiaries engaged in plantation business and (ii) increase market demand for the high quality seedlings and raw Chinese herbs of the Group.

Profitability

	Six months ended 30 June		Growth Rate
	2018 HK\$'000	2017 HK\$'000	
Revenue	386,604	263,093	46.9%
Cost of sales	150,293	82,225	82.8%
Gross Profit	236,311	180,868	30.7%
Gross profit margin	61.1%	68.7%	

The Group's gross profit margin for the six months ended 30 June 2018 was 61.1%, representing a decrease of 7.6% compared to 68.7% in last year. The average selling price of CCMG and Chinese healthcare products remained stable during the period. The decrease in gross profit margin was due to the lower gross profit margin of plantation business, as higher proportion of revenue was generated from plantation segment.

Other income and gains

The Group's other income and gains mainly comprised of government grants, gain from sale of equipment and accessories, fair value gain on biological assets and financial assets at fair value through profit or loss, net foreign exchange gain and interest income. For the six months ended 30 June 2018, the Group's other income and gain was HK\$15.5 million, representing an increase of HK\$8.0 million or 105.6% compared to HK\$7.5 million for the corresponding period in last year. The increase was mainly due to (i) increase in Government grant received during the period, in which HK\$6.9 million was received in Guizhou to reward the Group's investments in poverty area, and (ii) increase in fair value gain on biological assets arising from the plantation business.

Management Discussion and Analysis

Selling and distribution expenses

The Group's selling and distribution expenses mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses, and sales and marketing departmental expenses. For the six months ended 30 June 2018, the Group's selling and distribution expenses was HK\$116.0 million, representing an increase of HK\$35.4 million or 43.9% compared to HK\$80.6 million for the corresponding period in last year. The increase was mainly attributable to (i) continued devotion of more marketing resources to support both the direct sales customers and distributors to expand the Group's CCMG business in China market; and (ii) increased advertising and promotional activities to strengthen the promotion of the Group's products and brands in China.

For the six months ended 30 June 2018, selling and distribution expenses as a percentage to revenue remained stable at 30.0%, as compared to 30.6% for the corresponding period in last year.

Administrative expenses

	Six month ended 30 June			
	2018 HK\$'000	2017 HK\$'000	Change HK\$'000	%
Clinics operating expenses	37,062	29,461	7,601	25.8%
General administrative expenses	69,451	56,329	13,122	23.3%
Total administrative expenses	106,513	85,790	20,723	24.2%

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

For the six months ended 30 June 2018, the Group's administrative expenses was HK\$106.5 million, representing an increase of HK\$20.7 million or 24.2% compared to HK\$85.8 million for the corresponding period in last year. The increase was mainly attributable to (i) increase in clinic management fee, rental expenses and relevant clinic operating expenses in relation to the Group's Nong's® (農本方®) Chinese medicine clinics in Hong Kong as the Group operated 67 clinics as at 30 June 2018, as compared to 59 as at 30 June 2017, (ii) increase in clinic operating expenses in China and Canada, including the pre-operation expenses for the clinic in Shanghai, (iii) administrative expenses attributed to the 2017 newly acquired subsidiaries in Guizhou, U.S. and Japan of HK\$13.2 million in total, and (iv) HK\$6.5 million once-off expenses for organisation restructuring project.

In order to increase the operating efficiency, the Group has engaged an organisation design professional to review the Group's organisation, and recommended an optimised structure for the Group to sustain for a long-term growth with cost and operating efficiency. As a result, the Group has recorded an once-off expenses of HK\$6.5 million as consulting fee and personnel restructuring expenses during the six months ended 30 June 2018.

Other expenses

The Group's other expenses mainly comprised of voluntary charity donation, net foreign exchange loss and loss on disposal of fixed assets. The increase was primarily attributable to a net foreign exchange loss recorded during the six months ended 30 June 2018, while a net foreign exchange gain was recorded for the corresponding period in last year. The increase in loss on disposal of fixed assets result from the close of the non-performing clinics in Hong Kong during the six months ended 30 June 2018.

Finance costs

For the six months ended 30 June 2018, the Group's finance costs amounted to HK\$11.1 million, representing an increase of HK\$4.0 million or 57.5% as compared to HK\$7.0 million for the corresponding period in last year. The increase was mainly due to the increase in average outstanding bank and other borrowings during the period under review as compared to the corresponding period in last year. During the six months ended 30 June 2018 net bank borrowings decreased by HK\$69.9 million and a loan from a director up to HK\$50 million was granted by Mr. Abraham Chan, to finance the general corporate funding of the Group.

Income tax expense

For the six months ended 30 June 2018, the Group's income tax expenses amounted to HK\$2.3 million, representing a decrease of HK\$2.3 million or 49.6% as compared to HK\$4.6 million for the corresponding period in last year. The effective tax rate decreased from 33.7% for the six months period ended 30 June 2017 to 14.9% for the period under review. The decrease in income tax expenses and effective tax rate was due to:

- (i) lower assessable tax profit during the period under review; and
- (ii) 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 relating to agriculture such as agro-product preliminary processing are exempted from income tax. As a result, the profit from the Group's subsidiaries in Guizhou which are engaged in the relevant businesses mentioned above were subject to preferential income tax rate of 0%.

Capital Expenditures

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. During the six months ended 30 June 2018, the total capital expenditure was HK\$33.8 million (six months ended 30 June 2017: HK\$40.5 million). The capital expenditures during the period under review were mainly incurred for (i) acquisition of production equipment and enhancement of existing production line, (ii) renovation of new Nong's® (農本方®) Chinese medicine clinics in both Hong Kong and China, and (iii) capital expenditure for construction of TCM decoction pieces production facilities.

Liquidity and Financial Resources

As at 30 June 2018, the Group had net current assets of HK\$68.4 million (31 December 2017: HK\$8.1 million), which included cash and cash equivalent of HK\$83.4 million (31 December 2017: HK\$86.8 million), interest-bearing bank and other borrowings amounting to HK\$478.1 million (31 December 2017: HK\$548.0 million) and loan from a director amounting to HK\$50 million (31 December 2017: nil). As at 30 June 2018, the Group's unused bank facilities including overdraft amounted to HK\$104.9 million (31 December 2017: HK\$103.3 million).

Management Discussion and Analysis

Gearing Ratio

As at 30 June 2018, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank and other borrowings, and loan from a director by total equity, decreased to 0.94 from 1.0 as at 31 December 2017. The decrease was due to reduction in bank borrowings and increase in total equity resulted from the profit generated during the period under review.

Exchange Risk

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

Human Resources

As at 30 June 2018, the Group had a total of 611 employees (31 December 2017: 681 employees). During the six months ended 30 June 2018, total staff costs excluding Directors' remuneration was HK\$56.3 million (six months ended 30 June 2017: HK\$53.7 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.

Pledge of Assets

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

	Carrying value	
	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Property, plant and equipment	147,248	137,113
Prepaid land lease payments	25,600	25,696
Financial assets at fair value through profit or loss	10,743	–
Available-for-sale investments	–	10,562
Inventories	41,377	41,479
Trade receivables	20,362	28,304
Pledged bank deposits	9,000	9,000
	254,330	252,154

Capital Commitment

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Contracted, but not provided for:		
Land and buildings	41,455	41,557
Plant and machinery	5,516	5,943
	46,971	47,500

Material Acquisitions, Disposals and Material Investment

There were no material acquisitions, disposals and material investment of the Group for the six months ended 30 June 2018.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2018.

Use of Proceeds from the Company's Initial Public Offering

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK\$288.4 million. As at 30 June 2018, the Group had utilised approximately HK\$264.3 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	Approximate amount of net proceeds (in HK\$ million)	Approximate percentage of net proceeds	Approximate amount utilized (in HK\$ million)	Approximate amount unutilized (in HK\$ million)
To expand manufacturing facilities and enhance existing production lines	86.5	30.0%	84.5	2.0
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25.0%	72.1	–
To expand distribution network into new target cities in the PRC	57.7	20.0%	57.7	–
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15.0%	21.2	22.1
Additional working capital of the Group	28.8	10.0%	28.8	–
	288.4	100.0%	264.3	24.1

The unutilised net proceeds of HK\$24.1 million have been placed with licensed banks in Hong Kong and will be applied in the manner consistent with the proposed allocations as set out in the Company's listing prospectus.

Disclosure of Interests

Directors' and Chief Executives' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2018, the board of directors of the Company ("Directors") and chief executives 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 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Capacity/ Nature of Interest	Number of 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	141,903,220 (L) ⁽²⁾⁽³⁾⁽⁴⁾	57.29%
	Beneficial owner	2,493,500 (L)	1.01%
	Interest of spouse	51,716,500 (L) ⁽⁵⁾	20.88%
	Beneficiary of a trust	210,000 (L) ⁽⁹⁾	0.08%
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Interest of a controlled corporation	51,566,500 (L) ⁽⁶⁾	20.82%
	Beneficial owner	45,000 (L)	0.02%
	Interest of spouse	144,606,720 (L) ⁽⁷⁾	58.38%
	Beneficiary of a trust	105,000 (L) ⁽⁹⁾	0.04%
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Interest of controlled corporations	3,125,000 (L) ⁽⁸⁾	1.26%
	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L) ⁽⁹⁾	0.01%
Dr. Tsoi Kam Biu, Alvin	Beneficial owner	45,000 (L)	0.02%
	Beneficiary of a trust	105,000 (L) ⁽⁹⁾	0.04%
Dr. Chan Kin Keung, Eugene	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L) ⁽⁹⁾	0.01%
Mr. Ho Kwok Wah, George	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L) ⁽⁹⁾	0.01%
Dr. Leung Lim Kin, Simon	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L) ⁽⁹⁾	0.01%
Prof. Tsui Lap Chee	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L) ⁽⁹⁾	0.01%

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 51,566,500 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 77,286,000 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 13,050,720 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 51,566,500 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. Mr. Eddie Chan wholly owns the entire issued share capital of Best Revenue Investments Limited ("Best Revenue") and K.M. Chan & Co. Limited ("KM Chan"), which in turn owns 1,562,500 Shares and 1,562,500 Shares, respectively. By virtue of the SFO, Mr. Eddie Chan is deemed to be interested in the Shares held by Best Revenue and KM Chan.
9. These shares represent shares granted to such directors pursuant to the Award Scheme, which will be 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.

Save as disclosed above, as at 30 June 2018, none of the Directors, chief executives 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.

Disclosure of Interests

Substantial Shareholders' Interests and/or Short Position in Shares and Underlying Shares of the Company

As at 30 June 2018, 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	51,566,500 (L)	20.82%
Joint Partners	Interest of a controlled corporation	51,566,500 (L) ⁽²⁾	20.82%
Fullgold Development	Beneficial owner	77,286,000 (L)	31.20%
Gold Sparkle	Beneficial owner	13,050,720 (L)	5.27%

Notes:

1. The letter "L" denotes the person's long position in such securities.
2. 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.

Save as disclosed above, as at 30 June 2018, 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

The Company adopted a share option scheme (the "Option Scheme") to recognise and acknowledge the contributions that the eligible participants had or may have made to the Group. The principal terms of the Option Scheme are summarised in note 23(a) to the interim condensed consolidated financial statements.

The Option Scheme was adopted on 12 June 2015 and unless otherwise cancelled or amended, will remain in force for a period of 10 years to 11 June 2025.

Since the adoption of the Option Scheme, no share options were granted, exercised or cancelled by the Company under the Option Scheme. There were no outstanding share options under the Option Scheme as at the date of this interim report.

Share Award Scheme

The Board of Directors (the "Board") 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 administering the Award Scheme. The Share Award Scheme Trust will acquire the Company's 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 further resolved in February 2016 that a sum of HK\$10,000,000 be provided for the purchase of the Shares to be awarded to the Eligible Award Participants to be selected by the Board. During the six month ended 30 June 2018, no Share was purchased by the Share Award Scheme Trust.

As at 30 June 2018, the Share Award Scheme Trust held 2,496,000 shares (the "Award Shares") (31 December 2017: 3,021,000 Award Shares). No Award Share was granted during the six months ended 30 June 2018, 525,000 Award Shares were vested to the Eligible Participants and 300,000 Award Shares were forfeited due to the resignation of Eligible Award Participants.

The Group recognized a net share award expense of HK\$1,336,000 during the six months ended 30 June 2018 (2017: HK\$157,000).

Corporate Governance and Other Information

Corporate Governance

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 June 2018, save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

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

Audit Committee

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

Review of the Interim Results

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 has been reviewed by the auditors of the Company, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 — “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The interim report of the Group for the six months ended 30 June 2018 has also been reviewed and passed by the Audit Committee.

The Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. All Directors confirmed that, having made specific enquiries of all Directors, they have complied with the required standard of dealing as set out in the Model Code throughout the six months ended 30 June 2018.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities throughout the six months ended 30 June 2018.

Important Events since the end of the Reporting Period

There were no significant event affecting the Company nor any of its subsidiaries after the end of the reporting period requiring disclosure in this report.

Interim Dividend

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2018.

Independent Review Report



To the board of directors of PuraPharm Corporation Limited

(Incorporated in Cayman Island with limited liability)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PuraPharm Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 21 to 60, which comprises the interim condensed consolidated statement of financial position as at 30 June 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six months then ended (the "Reporting Period"), and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provision there of and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

27 August 2018

Interim Condensed Consolidated Statement of Profit or Loss

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
REVENUE	5	386,604	263,093
Cost of sales		(150,293)	(82,225)
Gross profit		236,311	180,868
Other income and gains	5	15,514	7,546
Selling and distribution expenses		(115,979)	(80,606)
Administrative expenses		(106,513)	(85,790)
Other expenses		(2,556)	(1,192)
Finance costs	7	(11,085)	(7,039)
PROFIT BEFORE TAX	6	15,692	13,787
Income tax expense	8	(2,344)	(4,649)
PROFIT FOR THE PERIOD		13,348	9,138
Attributable to owners of the parent		13,348	9,138
EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT (expressed in HK cents per share)			
Basic			
— For profit for the period	10	5.5	4.0
Diluted			
— For profit for the period	10	5.4	4.0

Interim Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
PROFIT FOR THE PERIOD	13,348	9,138
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	-	191
Income tax effect	-	(32)
	-	159
Exchange differences on translation of foreign operations	(717)	7,970
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(717)	8,129
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	12,631	17,267
Attributable to owners of the parent	12,631	17,267

Interim Condensed Consolidated Statement of Financial Position

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	301,026	297,059
Prepaid land lease payments		47,045	47,854
Other intangible assets		36,143	35,175
Available-for-sale investments		–	22,110
Financial assets at fair value through profit or loss	13	10,743	–
Biological assets	15	20,598	18,903
Prepayments for non-current assets	17	16,784	8,693
Deferred tax assets		17,425	16,313
Goodwill	12	155,685	155,685
Total non-current assets		605,449	601,792
CURRENT ASSETS			
Inventories	14	253,328	282,479
Biological assets	15	24,244	18,244
Trade and bills receivables	16	266,920	242,603
Prepayments, deposits and other receivables	17	53,931	53,054
Pledged bank deposits	18	9,000	9,000
Cash and cash equivalents	18	83,390	86,805
Total current assets		690,813	692,185
CURRENT LIABILITIES			
Trade payables	19	113,153	112,195
Other payables and accruals		75,674	69,831
Interest-bearing bank and other borrowings	20	374,562	493,744
Loans from a director	21	50,000	–
Tax payable		6,485	5,050
Government grants		2,547	3,274
Total current liabilities		622,421	684,094
NET CURRENT ASSETS		68,392	8,091
TOTAL ASSETS LESS CURRENT LIABILITIES		673,841	609,883

Interim Condensed Consolidated Statement of Financial Position

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		673,841	609,883
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	20	103,513	54,277
Government grants		5,151	3,731
Deferred tax liabilities		2,128	2,793
Total non-current liabilities		110,792	60,801
Net assets		563,049	549,082
EQUITY			
Equity attributable to owners of the parent			
Share capital	22	191,981	191,981
Shares held for Share Award Scheme	23(b)	(8,200)	(10,019)
Reserves	24	379,268	367,120
Total equity		563,049	549,082

 Director

 Director

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent										
	Share capital HK\$'000 (note 22)	Share premium account HK\$'000 (note 22)	Shares held for award scheme HK\$'000 (note 23(b))	Share award reserve HK\$'000 (note 23(b))	Merger reserve HK\$'000 (note 24)	Surplus reserves HK\$'000 (note 24)	Capital reserve HK\$'000 (note 24)	Available- for-sale investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 31 December 2017 (audited)	191,981	206,672	(10,019)	2,226	1,814	27,307	(7,505)	(534)	326	136,814	549,082
Restated opening balance under HKFRS9	-	-	-	-	-	-	-	534	-	(534)	-
At 31 December 2017 and 1 January 2018 (restated)	191,981	206,672	(10,019)	2,226	1,814	27,307	(7,505)	-	326	136,280	549,082
Profit for the period	-	-	-	-	-	-	-	-	-	13,348	13,348
Other comprehensive income for the year: Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(717)	-	(717)
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(717)	13,348	12,631
Recognition of equity-settled share award	-	-	-	1,947	-	-	-	-	-	-	1,947
Forfeiture of Award Shares granted under Share Award Scheme	-	-	-	(611)	-	-	-	-	-	-	(611)
Transfer of vested shares under Share Award Scheme	-	139	1,819	(1,958)	-	-	-	-	-	-	-
At 30 June 2018 (unaudited)	191,981	206,811*	(8,200)	1,604*	1,814*	27,307*	(7,505)*	-	(391)*	149,628*	563,049

* These reserve accounts comprise the consolidated reserves of HK\$379,268,000 in the interim condensed consolidated statement of financial position as at 30 June 2018.

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent										
	Share capital HK\$'000 (note 22)	Share premium account HK\$'000 (note 22)	Shares held for share award scheme HK\$'000 (note 23(b))	Share award reserve HK\$'000 (note 23(b))	Merger reserve HK\$'000 (note 24)	Surplus reserves HK\$'000 (note 24)	Capital reserve HK\$'000 (note 24)	Available- for-sale investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total equity
At 31 December 2016 (audited)	174,375	150,616	(10,019)	-	1,814	24,685	(7,505)	469	(17,477)	137,547	454,505
Profit for the period	-	-	-	-	-	-	-	-	-	9,138	9,138
Other comprehensive income for the year:											
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	-	159	-	-	159
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	7,970	-	7,970
Total comprehensive income for the period	-	-	-	-	-	-	-	159	7,970	9,138	17,267
Final 2016 dividend	-	(4,942)	-	-	-	-	-	-	-	-	(4,942)
Issue of ordinary shares for equity consideration for acquisition of subsidiaries	17,606	60,998	-	-	-	-	-	-	-	-	78,604
Recognition of equity-settled share award	-	-	-	157	-	-	-	-	-	-	157
At 30 June 2017 (unaudited)	191,981	206,672*	(10,019)	157*	1,814*	24,685*	(7,505)	628*	(9,507)	146,685	545,591

Interim Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		15,692	13,787
Adjustments for:			
Finance costs	7	11,085	7,039
Foreign exchange (gain)/loss, net	6	332	(2,671)
Fair value gain on biological assets	5	(3,360)	–
Loss on disposal of property, plant and equipment	6	928	38
Equity-settled share award expense	23(b)	1,336	157
Depreciation	6	13,660	9,143
Amortisation of prepaid land lease payments	6	1,478	294
Amortisation of other intangible assets	6	1,448	1,460
Write-down of inventories to net realisable value	6	1,271	498
Bank interest income	5	(221)	(261)
Impairment of trade and bills receivables	6	801	–
		44,450	29,484
(Increase)/decrease in inventories		25,689	(15,884)
Increase in biological assets		(5,044)	(415)
Increase in trade and bills receivables		(27,983)	(18,452)
Increase in prepayments, deposits and other receivables		(496)	(15,362)
Increase/(decrease) in trade payables		2,274	(23,100)
Increase/(decrease) in government grants		672	(893)
Increase/(decrease) in other payables and accruals		7,867	(27,707)
Cash generated from/(used in) operations		47,429	(72,329)
Interest received		221	261
Hong Kong income tax paid		(303)	(265)
Overseas profits tax paid		(181)	–
PRC corporate income tax paid		(2,228)	(9,143)
Net cash flows generated from/(used in) operating activities		44,938	(81,476)

Interim Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Net cash flows generated from/(used in) operating activities		44,938	(81,476)
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of financial assets at fair value through profit or loss	13	11,685	–
Purchases of property, plant and equipment		(30,522)	(35,436)
Proceeds from disposal of items of property, plant and equipment		2,061	62
Addition to other intangible assets		(3,248)	(5,065)
Acquisition of subsidiaries		–	(149,618)
Decrease in pledged deposits		–	1,924
Net cash flows used in investing activities		(20,024)	(188,133)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans borrowings		265,207	382,080
Repayment of bank loans		(340,342)	(143,566)
Repayment of other borrowings		–	(12,285)
Loans from a director	21	50,000	–
Interest paid		(12,563)	(7,039)
Dividends paid		–	(4,942)
Net cash flows generated from/(used in) financing activities		(37,698)	214,248
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		86,805	209,129
Effect of foreign exchange rate changes, net		1,542	2,882
CASH AND CASH EQUIVALENTS AT END OF PERIOD		75,563	156,650
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	83,390	156,650
Bank overdrafts		(7,827)	–
		75,563	156,650

1. Corporate Information and Reorganisation

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

The Company is an investment holding company. During the six months ended 30 June 2018 (the “Reporting Period”), the Company and its subsidiaries (the “Group”) were principally engaged in the research, development, production and sale of concentrated Chinese medicine granule (“CCMG”) products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and manufacturing and sales of Traditional Chinese Medicine (“TCM”) decoction pieces (“中藥飲片”), as well as rendering of Chinese medical diagnostic services.

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

2. Basis of Preparation

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) as disclosed in note 3.1 below.

These unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2017.

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

Notes To Interim Condensed Consolidated Financial Statements

2. Basis of Preparation (continued)

Basis of consolidation

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

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

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

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

3.1 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised HFRSs for the first time for the Period's financial statements:

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>

Other than as further explained below, the application of these new and revised HKFRSs in the Period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

HKFRS 15

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption and it elected to apply that method to only those contracts that were not completed at the date of initial application. The comparative information for each of the primary financial statements would be presented based on the requirements of HKAS 18 and related interpretations.

The Group has concluded that revenue from sale of its products should be recognised at the point in time when control of the assets is transferred to the customer, generally on delivery of these products. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition. The impact on the amount of revenue to be recognised was further explained below.

Notes To Interim Condensed Consolidated Financial Statements

3.1 Changes in Accounting Policies and Disclosures (continued)

HKFRS 15 (continued)

(i) Variable consideration

Certain sales contracts of the Group provide customers with rights of return and sales rebates. Under HKFRS 15, rights of return and sales rebates give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

Rights of return

The Group uses the "expected value method" to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group applies the requirements in HKFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. Prior to the adoption of HKFRS 15, the amount of revenue related to the expected returns was adjusted and recognised in the statement of financial position in "Other payables" within account "Other payables and accruals" with a corresponding adjustment to the Cost of sales. Upon the adoption of HKFRS 15, the Group presents refund liabilities as "Refund liabilities" within the account "Other payables and accruals" and an asset for the right to recover products from customers as "Contract assets" within the account "Inventories", respectively.

(ii) Advances from customers

Advance payment is sometimes required for the sales to customers. Prior to the adoption of HKFRS 15, the advance payments from customers was recognised in the statement of financial position as "Advances from customers" within the account "Other payables and accruals". Upon the adoption of HKFRS 15, the Group reclassified the advance payments from customers to "Contract liabilities" within the account "Other payable and accruals".

HKFRS 9

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

3.1 Changes in Accounting Policies and Disclosures (continued)

HKFRS 9 (continued)

Classification and measurement

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL") and amortised cost. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instrument's contractual cash flows represent solely payments of principal and interest on the principal amount outstanding (the "SPPI" criterion). The new classification and measurement of the Group's debt instruments are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and bills receivables, financial assets included in prepayments, deposits and other receivables and loans receivables.

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. None of the Group's financial assets apply this category.

All other debt investments and equity investments are measured at their fair value and their fair value changes are recognised in profit or loss. This category includes the Group's available-for-sale investment. Accordingly, the Group has reclassified its available for sales investment to FVPL upon the adoption of HKFRS 9.

The Group selected not to adjust the comparative information as at 31 December 2017 and reclassified the cumulative unrealised loss arising from the changes in fair value of the Group's available-for-sale financial assets before the adoption of HKFRS 9 of HK\$534,000 from "available-for-sale investment revaluation reserve" to "retained profits".

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

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. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group has applied the simplified approach and recorded lifetime expected losses on trade receivables, and general approach and recorded twelve-month expected credit loss on bills receivables, financial assets included in prepayments, deposits and other receivables and loans receivable. The Group determined that there are no significant financial impact arising from these changes.

Notes To Interim Condensed Consolidated Financial Statements

3.1 Changes in Accounting Policies and Disclosures (continued)

Impairment (continued)

Under the simplified approach, the Group measures the loss based on lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL — not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL — credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

As at the end of each reporting period, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the end of the reporting period and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and, forward-looking analysis.

For the purposes of impairment assessment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using an allowance account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the impairment provision reverts from lifetime ECL to 12-month ECL.

3.2 Issued but not yet Effective HKFRSs

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

HKFRS 16	Leases ¹
IFRS 17	Insurance Contract ²
IFRIC 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

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

³ No mandatory effective date yet determined but available for adoption

Other than HKFRS 16 as further explained below, the Group expects that the adoption of the above new and revised standards will have no significant impact on these financial statements.

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. At 30 June 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$56,052,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Notes to Interim Condensed Consolidated Financial Statements

4. Operating Segment Information

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

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

Management monitors the results of the Group's operating segments respectively for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss after tax. The adjusted profit or loss after tax is measured consistently with the Group's profit after tax except government grants for research and development projects, interest income, net foreign exchange gain (loss), finance costs, corporate and other unallocated corporate 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.

4. Operating Segment Information (continued)

The following tables present revenue, profit and other segment information for the Group's operating segments for the six months ended 30 June 2018 and 2017.

Six months ended 30 June 2018 (Unaudited)

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000	Chinese healthcare products HK\$'000	Clinics HK\$'000	Plantation HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue:							
Revenue to external customers	166,107	83,793	48,555	44,980	43,169	–	386,604
Intersegment sales	52,142	7,698	316	–	4,441	(64,597)	–
	218,249	91,491	48,871	44,980	47,610	(64,597)	386,604
Segment results	20,537	21,591	5,819	(10,842)	11,161	–	48,266
Reconciliations:							
Government grants*							3,588
Interest income							221
Foreign exchange loss, net							(332)
Equity-settled share award scheme							(1,336)
Finance costs							(11,085)
Corporate and other unallocated expenses							(23,630)
Profit before tax							15,692
Income tax expense							(2,344)
Net profit							13,348
Other segment information:							
Depreciation and amortisation	7,948	1,976	1,013	2,926	2,723	–	16,586
Write-down of inventories to net realisable value	708	563	–	–	–	–	1,271
Impairment of trade and bills receivables	801	–	–	–	–	–	801

* Government grants of HK\$6,923,000, which is directly attribute to the plantation business, were recognised in the plantation segment during the six months ended 30 June 2018.

Notes to Interim Condensed Consolidated Financial Statements

4. Operating Segment Information (continued)

Six months ended 30 June 2017 (Unaudited)

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

5. Revenue, Other Income and Gains

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

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue		
Sales of CCMG products	283,577	208,950
Sales of Chinese healthcare products	48,555	34,076
Sales of raw Chinese herbs	43,169	10,326
Rendering of Chinese medical diagnostic services (the "Diagnostic Services")	11,303	9,741
	386,604	263,093
Other income and gains		
Government grants*	10,511	3,415
Fair value gain on biological assets, net	3,360	–
Gain from the sale of equipment and accessories	996	1,107
Fair value gain on financial assets at fair value through profit or loss	318	–
Bank interest income	221	261
Foreign exchange gain, net	–	2,671
Others	108	92
	15,514	7,546

* Amount represented government grants from the relevant authorities in the People's Republic of China (the "PRC"), which consist primarily of subsidies and compensation for operation finance cost, rewarding the Group's investments in poverty area, research and development costs and grants for improvement of our research facilities in relation to certain research and development projects.

Notes to Interim Condensed Consolidated Financial Statements

6. Profit before Tax

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Cost of CCMG, healthcare product and raw Chinese herbs sold	144,026	77,581
Cost of Diagnostic Services provided	6,267	4,644
Depreciation	13,660	9,143
Amortisation of prepaid land lease payments	1,478	294
Amortisation of other intangible assets	1,448	1,460
Research and development costs*	9,015	9,083
Minimum lease payments under operating leases:		
Office equipment	98	77
Land and buildings	18,587	16,020
	18,685	16,097
Auditors' remuneration	1,468	1,303
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	48,899	46,981
Pension scheme contributions	6,822	6,667
Equity-settled share award expense (Note 23(b))	529	98
	56,250	53,746
Foreign exchange (gain)/loss, net**	332	(2,671)
Loss on disposal of items of property, plant and equipment	928	38
Impairment of trade and bills receivables	801	–
Write-down of inventories to net realisable value ***	1,271	498

* Included in the research and development costs, there are expenditure of HK\$401,000 (six months ended 30 June 2017: HK\$307,000) disclosed in the item of "depreciation" and HK\$3,902,000 (six months ended 30 June 2017: HK\$4,563,000) disclosed in the item of "employee benefit expenses" for the six months ended 30 June 2018.

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

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

7. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interest on bank and other borrowings and overdrafts	12,563	7,039
Less: Interest capitalised	(1,478)	–
	11,085	7,039

8. Income Tax Expense

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong, U.S. and Japan profits taxes have been provided at the rates of 16.5%, 40% and 40% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2018 and 2017. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, Purapharm (Nanning) Pharmaceuticals Co., Limited ("PuraPharm Nanning"), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15%.

According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) DZ Plantation Co., Ltd and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd have obtained the documentation acknowledged by the in-charge tax authority for the CIT exemption for the six months ended 30 June 2018 and 2017 and the preferential income tax rate was 0%.

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current	4,121	4,859
Deferred	(1,777)	(210)
Total tax charge for the period	2,344	4,649

Notes to Interim Condensed Consolidated Financial Statements

9. Dividend

No interim dividend was proposed for the six months ended 30 June 2018 (2017: nil).

10. Earnings per Share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the six months ended 30 June 2018 excluding ordinary shares purchased by the Group and held for Award Scheme (note 23(b)).

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Profit attributable to the owners of the parent (HK\$'000)	13,348	9,138
Weighted average number of ordinary shares in issue during the period	244,737,528	231,141,476
Basic earnings per share (expressed in HK cents per share)	5.5	4.0

(b) Diluted

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

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Profit attributable to the owners of the parent (HK\$'000)	13,348	9,138
Weighted average number of ordinary shares in issue during the period	244,737,528	231,141,476
Adjustment for Award Shares	1,834,530	169,890
Weighted average number of ordinary shares for diluted earnings per share calculation	246,572,058	231,311,366
Diluted earnings per share (expressed in HK cents per share)	5.4	4.0

11. Property, Plant and Equipment

During the Reporting Period, the Group purchased property, plant and equipment with an aggregate cost of HK\$19,436,000 (six months ended 30 June 2017: HK\$20,701,000) and capitalised interest expense of HK\$1,478,000 (six months ended 30 June 2017: nil). During the Reporting Period, property, plant and equipment with an aggregate carrying amount of HK\$2,552,000 (six months ended 30 June 2017: HK\$99,000) were disposed of by the Group.

12. Goodwill

	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Audited)
At 1 January	155,685	–
Acquisition of subsidiaries	–	155,685
At 30 June/31 December	155,685	155,685

Impairment testing of goodwill

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

- Plantation CGU;
- Chinese herbal products CGU; and
- SODX CGU.

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Plantation CGU	134,692	134,692
Chinese herbal products CGU	13,705	13,705
SODX CGU	7,288	7,288
	155,685	155,685

Notes to Interim Condensed Consolidated Financial Statements

12. Goodwill (continued)

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets or forecasts approved by management covering a period of 5 to 8 years. The growth rates used to extrapolate the cash flows beyond the period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

The pre-tax discount rates applied to cash flow projections and the growth rates used to extrapolate cash flows beyond the 5 to 8 years period are as follows:

	30 June 2018		31 December 2017	
	Growth Rate	Pre-tax Discount Rate	Growth Rate	Pre-tax Discount Rate
Plantation CGU	2.7%	22.3%	2.7%	22.3%
Chinese herbal products CGU	2.0%	25.3%	2.0%	25.3%
SODX CGU	1.2%	14.0%	1.2%	14.0%

Assumptions were used in the value in use calculation of each CGU as at 30 June 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

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

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

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

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

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

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

13. Financial assets at fair value through profit or loss

The Group financial assets at FVPL represented the two life insurance policies (31 December 2017: four) to insure an executive director. Under these policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for these policies and may surrender any time by filing a written request and receive cash based on the surrender value of the policy at the date of withdrawal, which is calculated by the insurer. In the opinion of the directors, the surrender values of the policies provided by the insurance company are the best approximation of their fair values, which are categorised within Level 3 of the fair hierarchy.

Below table illustrated the movement in the financial assets at fair value through profit or loss during the Reporting Period:

	30 June 2018 HK\$'000 (Unaudited)
At the beginning of the period	22,110
Disposals	(11,685)
Fair value gain on financial assets at FVPL	318
At the end of the period	10,743

14. Inventories

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Raw materials	88,313	93,569
Work in progress	50,251	48,535
Finished goods	119,357	143,740
	257,921	285,844
Less: provision	(4,593)	(3,365)
	253,328	282,479

Notes to Interim Condensed Consolidated Financial Statements

15. Biological Assets

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
As at 1 January	37,147	–
Acquisition of subsidiaries	–	13,243
Addition during the period	9,337	16,624
Fair value gain on biological assets, net	3,360	9,102
Harvest during the year	(4,587)	(2,889)
Exchange realignment	(415)	1,067
	44,842	37,147
Portion classified as non-current portion	(20,598)	(18,903)
Current portion	24,244	18,244

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\$4,587,000 (31 December 2017: HK\$2,889,000) during the Reporting Period.

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

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

- (i) the raw Chinese herbs will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;
- (ii) the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as life of raw Chinese herbs;
- (iii) estimated yields of raw Chinese herbs are estimated based on the amount planted, health condition, expected death rate, and production conversion rate (from the number of plants to Chinese herbs in kg) if necessary;
- (iv) the expected prices and price growth rate of raw Chinese herbs are estimated based on the historical average district prices; and
- (v) a market-derived discount rate of 17% is applied to the projection of the Periodic Cash Flow.

15. 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.

16. Trade and Bills Receivables

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade receivables	275,453	246,915
Bills receivables	4,020	7,501
	279,473	254,416
Less: impairment of trade and bills receivables	(12,553)	(11,813)
	266,920	242,603

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

As at 30 June 2018, included in the Group's trade and bills receivables of HK\$9,599,000 (31 December 2017: HK\$11,103,000) were due from a company in which controlled by Mr. He Ding Xiang, a director of the Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd.

Notes to Interim Condensed Consolidated Financial Statements

16. Trade and Bills Receivables (continued)

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 3 months	150,639	116,063
3 to 6 months	44,368	49,069
6 to 12 months	37,495	24,928
Over 12 months	34,418	52,543
	266,920	242,603

17. Prepayments, Deposits and Other Receivables

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Prepayments	43,849	34,799
Receivables from third party agents	–	157
Deposits and other receivables	27,116	27,041
	70,965	61,997
Less: impairment of other receivables	(250)	(250)
	70,715	61,747
Portion classified as non-current	(16,784)	(8,693)
Current portion	53,931	53,054

18. Cash and Cash Equivalents and Pledged Deposits

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Cash and bank balances	83,390	86,805
Time deposits	9,000	9,000
	92,390	95,805
Less: Pledged time deposits for bank loans	(9,000)	(9,000)
Cash and cash equivalents	83,390	86,805
Cash and cash equivalents are dominated in:		
Renminbi ("RMB")	23,302	42,918
HK\$	42,610	25,221
Japanese yen ("JPY")	5,398	7,489
Canadian dollar ("CAD")	480	691
Australian dollar ("AUD")	1,162	1,602
US dollar ("US\$")	10,438	8,884
Cash and cash equivalents	83,390	86,805

19. Trade Payables

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

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 1 month	27,502	35,891
1 to 2 months	3,777	15,056
2 to 3 months	8,115	15,331
Over 3 months	73,759	45,917
	113,153	112,195

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

Notes to Interim Condensed Consolidated Financial Statements

20. Interest-Bearing Bank and Other Borrowings

	30 June 2018 (Unaudited)		
	Effective interest rate (%)	Maturity	HK\$'000
Current			
Bank overdraft — unsecured	4.00–5.00	On demand	7,827
Bank loans — secured	0.85–5.75	On demand/ 2019	171,876
Bank loans — unsecured	2.23–6.00	On demand	194,859
			<u>374,562</u>
Non-current			
Bank loans and other borrowings — secured	0.85–8.00	2021, 2023 or 2028	88,735
Bank loans — unsecured	4.66	2022	14,778
			<u>103,513</u>
Total			<u>478,075</u>
	31 December 2017 (Audited)		
	Effective interest rate (%)	Maturity	HK\$'000
Current			
Bank loans — secured	4.35–5.22	2018	123,301
Bank loans — secured	3.06–5.22	On demand	36,861
Bank loans — unsecured	1.85–6.00	On demand	333,582
			<u>493,744</u>
Non-current			
Bank loans and other Borrowings — secured	0.85–8.00	2021 or 2028	39,463
Bank loans — unsecured	4.66	2022	14,814
			<u>54,277</u>
Total			<u>548,021</u>

20. Interest-Bearing Bank and Other Borrowings (continued)

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Analysed into:		
Bank loans and other borrowings payable:		
Within one year or on demand	374,562	493,744
In the second year	35,554	4,303
In the third to fifth years, inclusive	66,059	47,932
Beyond five years	1,900	2,042
	478,075	548,021

Interest-bearing bank and other borrowings are denominated in:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
HK\$	295,854	363,311
RMB	171,276	173,668
JPY	3,813	3,910
US\$	7,132	7,132
	478,075	548,021

- (a) HK Interpretation 5 "Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" requires that a loan which includes a clause that gives the lender the unconditional right to call the loan at any time ("repayment on demand clause") shall be classified in total by the borrower as current in the condensed consolidated statements of financial position. Interest-bearing bank loans of the Group include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$74,082,000 (31 December 2017: HK\$4,875,000) that are repayable after one year from the end of the Reporting Period have been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.
- (b) As at 30 June 2018, the Group's bank loans amounting to approximately HK\$30,343,000 (31 December 2017: HK\$195,888,000) were not in compliance with certain financial loan covenants, among which a balance of HK\$8,022,500 (31 December 2017: HK\$75,315,000) that is repayable after one year from the end of 30 June 2018 should have been classified as a current liability. Since these bank loans all included the repayable on demand clause, they have already classified as a current liability as mentioned in (a) above.

Notes to Interim Condensed Consolidated Financial Statements

20. Interest-Bearing Bank and Other Borrowings (continued)

- (c) As at 30 June 2018, the Group's bank facilities including overdraft amounting to HK\$582,934,000 (31 December 2017: HK\$651,369,000) of which HK\$478,075,000 (31 December 2017: HK\$548,021,000) had been utilised.
- (d) The following assets were pledged as securities for interest-bearing bank and other borrowings:

	Carrying value	
	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Property, plant and equipment	147,248	137,113
Prepaid land lease payments	25,600	25,696
Financial assets at fair value through profit or loss	10,743	–
Available-for-sale investments	–	10,562
Inventories	41,377	41,479
Trade receivables	20,362	28,304
Pledged bank deposits	9,000	9,000
	254,330	252,154

21. Loans from a Director

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Loans from a director	50,000	–

On 14 March 2018 and 27 June 2018, shareholder loan of HK\$30 million and HK\$20 million was granted to the Group, respectively. The shareholder loan is unsecured, repayable on demand and bears interest at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to those offered by the banks to the Group.

22. Share Capital

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Authorised: 50,000,000,000 ordinary shares of US\$0.1 (HK\$0.775) each	38,750,000	38,750,000
Issued and fully paid: 247,717,920 (31 December 2017: 247,717,920) ordinary shares of US\$0.1 (HK\$0.775) each	191,981	191,981

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

	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 31 December 2017 and 1 January 2018	247,717,920	191,981	206,672	398,653
Transfer of vested shares under Share Award Scheme (Note 23(b))	–	–	139	139
At 30 June 2018	247,717,920	191,981	206,811	398,792

Notes to Interim Condensed Consolidated Financial Statements

23. Share Option Scheme and Shares Held for the Share Award Scheme

(a) Share option scheme

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

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

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

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

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

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

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.

2 of the Eligible Award Participants, who were granted Award Shares on 16 June 2017, have resigned during the six months ended 30 June 2018, therefore, their 300,000 shares of Award Shares were forfeited.

Notes to Interim Condensed Consolidated Financial Statements

23. Share Option Scheme and Shares Held for the Share Award Scheme (continued)

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

Details of the equity-settled share award expenses of the Group during the six months ended 30 June 2018 is listed as below:

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Recognition of equity-settled share award expenses	1,947	157
Forfeited during the period	(611)	–
Net equity-settled share award expenses recognised during the period	1,336	157
Less: Included in directors' remuneration	(731)	(59)
Employee benefit expenses	529	98

During the six months ended 30 June 2018, the Group recognised equity-settled share award expenses of HK\$1,947,000; and credited HK\$611,000 regarding the 300,000 forfeited Awarded Shares to the equity-settled share award expenses.

Summary of particulars of the Award Shares granted 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		
				Vested during the period	Forfeited during the period	Outstanding as at 30 June 2018
16 June 2017	615,000	2,295	16 June 2018	(525,000)	(90,000)	–
16 June 2017	410,000	1,529	16 June 2019	–	(60,000)	350,000
16 June 2017	410,000	1,529	16 June 2020	–	(60,000)	350,000
16 June 2017	410,000	1,529	16 June 2021	–	(60,000)	350,000
16 June 2017	205,000	765	16 June 2022	–	(30,000)	175,000
	2,050,000	7,647		(525,000)	(300,000)	1,225,000

24. Reserves

Surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the company now comprising the Group which is registered in the PRC shall appropriate a certain percentage of its 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 entity's 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 of directors or the shareholders in general meeting.

Capital reserve

Capital reserve represented additional contributions made by the shareholders of the Company's subsidiaries and, in the case of an acquisition of 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.

25. Operating Lease Arrangements

As lessee

The Group leases certain of its plantation base, warehouses, clinics, office buildings and office equipment under operating lease arrangements. Leases for plantation base, warehouses, clinics, office buildings and office equipment are negotiated for terms ranging from one to twenty years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within one year	26,745	29,861
In the second to fifth years, inclusive	21,489	30,311
Over five years	7,818	7,838
	56,052	68,010

Notes to Interim Condensed Consolidated Financial Statements

26. Commitments

In addition to the operating lease commitments detailed in note 25 above, the Group had the following capital commitments at the end of each of the Reporting Period:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Contracted, but not provided for:		
Lands and buildings	41,455	41,557
Plant and machinery	5,516	5,943
	46,971	47,500

27. Related Party Transactions

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

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

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

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

27. Related Party Transactions (continued)

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

		Six months ended 30 June	
		2018	2017
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Loans from a director	(i)	50,000	–
Interest expense to a director	(i)	348	–
Purchase of raw materials	(ii)	–	462
Professional service fees	(iii)	175	328
Acquisition of subsidiaries	(iv)	–	193,885

Notes:

- (i) On 14 March 2018 and 27 June 2018, the Group was granted shareholder loan of HK\$30 million and HK\$20 million, respectively. The interest expense in relation to the aforesaid loans was at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to loans offered by the banks to the Group.
- (ii) The purchase of raw materials was made from Gold Sparkle DZ, under prices mutually agreed by both parties. The Directors consider that the purchases of raw materials were made according to the prices and conditions similar to those offered to the other suppliers of the Group. Following the Group's acquisition of 100% equity interest in Gold Sparkle DZ on 19 April 2017, Gold Sparkle DZ became a wholly-owned subsidiary of the Group and the transaction after the acquisition is not related party transaction.
- (iii) The professional service fees were paid to Edtoma, CWCC and Gateway, over which Mr. Eddie Chan has significant influence, under a price mutually agreed by both parties. The Directors consider that the service charges offered by the suppliers were in line with its other suppliers.
- (iv) On 19 April 2017, the Group acquired Gold Sparkle DZ and Gold Sparkle HZ from a related company of which ultimate shareholders was Mr. Abraham Chan, at a consideration of HK\$193,885,000, based on arm's length negotiation in reference to the appraised value determined by an independent third party valuer.

(c) Outstanding balances with related parties:

	30 June 2018		31 December 2017	
	Maximum amount outstanding	Maximum amount outstanding	Maximum amount outstanding	Maximum amount outstanding
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Loans from a director				
Mr. Abraham Chan	50,000	50,000	–	–

- * The loan from a director is unsecured, repayable on demand and bears interest at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to those offered by the banks to the Group.

Notes to Interim Condensed Consolidated Financial Statements

27. Related Party Transactions (continued)

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	2,239	3,756
Pension scheme contributions	27	27
Equity-settled share award expense	731	59
	2,997	3,842

28. Fair Value and Fair Value Hierarchy of Financial Instruments

The Group's financial assets include financial assets at fair value through profit or loss (31 December 2017: available-for-sale investments) and loans and receivables which comprise financial assets at fair value through profit or loss (31 December 2017: available-for-sale investments), cash and cash equivalents, pledged deposits, trade receivables and financial assets included in prepayments, deposits and other receivables. The Group's financial liabilities include financial liabilities at amortised cost which comprise trade payables, financial liabilities included in other payables and accruals and interest-bearing bank and other borrowings.

Management has assessed that:

- The fair value of the financial assets at fair value through profit or loss (31 December 2017: available-for-sale investments) has been estimated based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data; and
- the fair values of the Group's financial assets classified as loans and receivables and financial liabilities were approximate to their carrying amounts largely due to the short term maturities of these instruments.

There were no transfers of fair value measurements during the six months ended 30 June 2018.

29. Approval of Financial Statements

The interim condensed consolidated financial statements were approved and authorised for issue by board of directors on 27 August 2018.



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