2021 ANNUAL REPORT
年度報告

PuraPharm Corporation Limited
培力農本方有限公司
Stock code 股票代號：1498

PuraPharm®

CONTENTS

PuraPharm Corporation Limited
2021 Annual Report

Corporate Information

Corporate Information

EXECUTIVE DIRECTORS

Mr. Chan Yu Ling, Abraham *(Chairman)*
Ms. Man Yee Wai, Viola
Dr. Norimoto Hisayoshi

NON-EXECUTIVE DIRECTORS

Mr. Chow, Stanley
Mr. Cheong Shin Keong (re-designated from executive Director to non-executive Director on 28 June 2021 and retired on 31 March 2022)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Dr. Leung Lim Kin, Simon *(Chairman)*
Mr. Chow, Stanley
Prof. Tsui Lap Chee

SCIENTIFIC ADVISORY COMMITTEE

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Dr. Norimoto Hisayoshi *(Chairman)*
Ms. Hung Pui
Mr. Cheung Kwun Kiu
Ms. Ma Hang Woon
Mr. Kwong Kar Fai
Ms. Zhou Jian

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

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

INVESTOR RELATIONS

Ms. Lucine Zhu

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

LEGAL ADVISORS

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

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 201–207, 2/F.,
Wireless Centre, Phase One,
Hong Kong Science Park,
Tai Po, New Territories, Hong Kong

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

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

SHARE INFORMATION

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

COMPANY'S WEBSITE

www.purapharm.com

Directors, Board Committees and Senior Management

Directors, Board Committees and Senior Management

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 61, is the founder, Chairman, Chief Executive Officer and Executive Director of PuraPharm Corporation Limited (the "Company", together with its subsidiaries, the "Group"). He is responsible for the overall strategic planning and operations of the Group's business. He also leads the Group's research development and technological development functions. Mr. Chan has over 30 years of extensive experience in Chinese medicine and healthcare products. He is a committee member of the Expert Group for Chinese Medicine Hospital and a member of the Advisory Committee of Government Chinese Medicines Testing Institute (GCMTI). In 2016, he was awarded Directors of The Year Awards 2016 by The Hong Kong Institute of Directors. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's Degree in Applied Sciences. He was accredited as a Chartered Engineer in the United Kingdom and was accredited as a Professional Engineer in Ontario, Canada. He is the spouse of Ms. Man Yee Wai, Viola, an Executive Director.

Ms. Man Yee Wai, Viola (文綺慧), age 56, is an Executive Director and has been with the Group since its founding in 1998. She is responsible for corporate and brand strategies, and the overall strategic planning of the Group's business. Ms. Man was the Key Account Manager and Group Product Manager of Nestle China Limited and the Consumer Marketing Manager of Coca-Cola China Ltd. and has over 20 years of experience in strategic planning, brand management, consumer and industrial marketing, key account management and new product development. Ms. Man was the Chairman (2012/13) of Tung Wah Group of Hospitals ("TWGHs"), one of the largest charitable organisations principally engaged in the provision of medical and health services, education and community services in Hong Kong and was a member of the Advisory Board of TWGHs (2013/14). Ms. Man was the Founding Chairman of the Board of Governors and College Council of Tung Wah College, and is currently the Council Chairman of Tung Wah College. She is currently a member of the HK Basic Law Promotion Steering Committee and a fellow of Hong Kong Institute of Directors. She was a member of the Council of the Education University of Hong Kong (2013-2019) and was a member of the Betting and Lotteries Commission (2013-2019). Ms. Man was a member of the Advisory Committee of the School of Chinese Medicine of Hong Kong Baptist University (2010 to 2016), and a member of the Risk Communication Advisory Group of the Centre for Health Protection of the Health Department (2013 to 2016). Ms. Man is a member of the Chinese People's Political Consultative Conference of Sichuan Province. She was awarded the Bronze Bauhinia Star by the Chief Executive of Hong Kong SAR in 2013. Ms. Man obtained her Bachelor's Degree in Science from The University of Western Ontario, Canada and her Master's Degree in Business Administration from The University of Windsor in Canada. She is the spouse of Mr. Chan Yu Ling, Abraham, the Group's Chairman, Chief Executive Officer and Executive Director.

Dr. Norimoto Hisayoshi (範本文哲), aged 52, was appointed as Executive Director on 17 November 2020. Dr. Norimoto is the chief research and development ("R&D") officer of the Group, the general manager of PuraPharm Japan Corporation and SODX Co., Ltd. in Osaka in Japan and the vice president of production and operation in China of the Group. Dr. Norimoto is primarily responsible for the management of the R&D, operation and production of the Group in China and Japan. Dr. Norimoto joined the Group in March 2016 as the general manager of PuraPharm Japan Corporation. Prior to joining the Group, from 2001 to 2016, Dr. Norimoto was the pharmacological head of R&D at Kracie Pharmaceutical, Ltd, a historical Kampo pharmaceutical manufacturer in Japan. Dr. Norimoto has been a director of Association for Promoting Sustainable Use of Medicinal Resources of Japan since 2018, a senior expert in the Committee of Planting and Breeding of China Association of Traditional Chinese Medicine in China since December 2019 and the chapter coordinator of Japan region for the Consortium for Globalisation of Chinese Medicine since 2018. Dr. Norimoto received a Master's Degree in pharmaceutical science and the Doctor of Philosophy in pharmaceutical science from the National Toyama Medical and Pharmaceutical University (now known as the University of Toyama) in Japan in 1998 and 2001, respectively.

Non-executive Directors

Mr. Chow, Stanley (周鏡華), aged 58, is a Non-executive Director. Mr. Chow has over 21 years of experience as a corporate lawyer in Hong Kong and Canada. From May 1995 to October 1996, Mr. Chow served as a senior manager in the Listing Division of The Stock Exchange of Hong Kong Limited. Mr. Chow joined Allen & Overy, an international law firm, as an associate in November 1996 and served as a partner in its Hong Kong office from May 2000 to January 2009. Then, Mr. Chow joined the Hong Kong office of Latham & Watkins, another international law firm, where he was a partner and the local department chair of the corporate department in Hong Kong from March 2009 to February 2014 and a member of its Initiatives Committee from March 2012 to February 2014. Mr. Chow is an independent non-executive director of HKBN Ltd. (stock code: 1310). Mr. Chow graduated from Queen's University, Canada with a Bachelor of Commerce (Honours) Degree in May 1986 and obtained a Juris Doctor with Honour Standing from the University of Toronto, Canada in June 1989. Mr. Chow was admitted as a barrister and solicitor in Ontario, Canada in 1991, and in British Columbia, Canada in 1994. He was also admitted as a solicitor in England and Wales in 1994 and in Hong Kong in 1995.

Mr. Cheong Shin Keong (鄭善強), aged 65, was appointed as Non-executive Director on 24 March 2020 and re-designated as Executive Director on 1 September 2020. Mr. Cheong retired as Non-executive Director on 31 March 2022. Mr. Cheong is an Independent Non-Executive Director of Bossini International Holdings Limited (stock code: 592), a company listed on the Stock Exchange since September 2017, and from January 2015 to January 2020 was an executive director of Television Broadcasts Limited (stock code: 511), a company listed on the Main Board of the Stock Exchange. Mr. Cheong joined Television Broadcasts Limited as controller, marketing & sales in March 1989 and assumed the duties of general manager in April 2004. Mr. Cheong has extensive experience in the advertising and marketing industry and contributes actively to the professional development of marketing in Hong Kong through leading marketing industry bodies. He is a Fellow and Deputy Chairman of the Hong Kong Management Association as well as a Fellow and the former president of the Hong Kong Regional Board of the Chartered Institute of Marketing.

Independent Non-executive Directors

Mr. Ho Kwok Wah, George (何國華), aged 63, is an Independent Non-executive Director. Mr. Ho has over 20 years of extensive experience in accounting, auditing and financial management. He is a director of Yong Zheng CPA Limited, an accounting firm in Hong Kong, as well as the Director of Hong Kong Shatin Industries and Commerce Association Limited, and Hong Kong Commerce and Industry Associations Limited, respectively. Mr. Ho is also an independent non-executive director of Town Health International Medical Group Limited (stock code: 3886), and Rykadan Capital Limited (stock code: 2288). He was awarded Medal of Honour (MH) by the government of Hong Kong SAR in 2015. Mr. Ho obtained a Bachelor's Degree in Accountancy from the Hong Kong Polytechnic University.

Dr. Leung Lim Kin, Simon (梁念堅), aged 67, is an Independent Non-executive Director. Dr. Leung has more than 30 years of extensive experience in both the information technology and telecommunications industries. Dr. Leung is currently a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business, University of Western Ontario in Canada, where he is primarily responsible for advising the school on its mission and strategy in Asia. He is also currently a member of the College Council of Tung Wah College, where he is primarily responsible for determining key governance issues. In 2005, he was appointed as the president of Motorola Asia-Pacific. Since 2008, Dr. Leung has been the Chief Executive Officer of Microsoft Greater China region. From 2009 to 2010, he was the Governor of the Upper Canada College. In 2012, Dr. Leung was appointed as Chief Executive Officer of Harrow International Management Services Limited. Since March 2015, Dr. Leung is appointed as the vice chairman and executive director of NetDragon Websoft Holdings Limited (stock code: 777) and the Chairman of its subsidiaries including Promethean World Limited, Edmodo, Inc., Cherrypicks and JumpStart Games, Inc., responsible for the overall strategic layout, direction of technical products and international business operation of all the education-related business of the company. From 2010 to 2015, Dr. Leung was a member of the International Advisory Committee of The Hong Kong Polytechnic University. Dr. Leung received his bachelor's degree in arts from the University of Western Ontario in Canada, an honorary doctorate in laws from the University of Western Ontario in Canada and a doctorate degree of business administration from the Hong Kong Polytechnic University.

Prof. Tsui Lap Chee (徐立之), aged 71, is an Independent Non-executive Director. Prof. Tsui is currently the President of the Academy of Sciences of Hong Kong and the President of Victor and William Fung Foundation. He is also an Independent Non-Executive Director of Hang Lung Group Limited (stock code: 0010). Prior to joining the Group, he was the Vice Chancellor of the University of Hong Kong. Prof. Tsui has over 40 years of research work experience, particularly in human genetics and genomics. Besides, he has over 300 peer-reviewed scientific publications and 65 invited book chapters. He was the recipient of many national and international prizes and was awarded 16 honorary doctoral degrees from universities around the world. He was appointed as the Justice of the Peace in 2006 and was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the Chief Executive of Hong Kong SAR in 2011 and 2016 respectively. He received a Doctor of Philosophy Degree from the University of Pittsburgh in the U.S.A.

SCIENTIFIC ADVISORY

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

Prof. Rudolf Bauer, is Full Professor at the Department of Pharmacognosy and the Head of the Institute of Pharmaceutical Sciences, University of Graz, Austria. Prof. Bauer is a member of two expert groups on herbal drugs of the European Pharmacopoeia Commission. He has been active in the development methods for quality control of Chinese herbs for 26 years. He has published 350 original publications, reviews and book chapters.

Prof. Piu Chan (陳彪), is the Professor and Director of Neurology and Geriatrics, and the Director of National Clinical Research Center on Geriatric Disorders, Beijing Institute of Geriatrics, Departments of Neurobiology, Xuanwu Hospital of Capital Medical University, Beijing, the PRC. He is adjunct scientist at the Parkinson's Institute in Sunnyvale, California, U.S.A. Prof. Chan is well known for his translational research on neurodegenerative disorders and other age-related disorders. He has been working on developing models for CNS diseases including non-human primate models of Parkinson's disease and dyskinesia. Dr. Chan has published more than 250 peer-reviewed papers.

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

Senior Management

Ms. Ho Yuk Chun (何玉珍), aged 54, is the General Manager of Nong's® Sales and Marketing. She is responsible for the sales and marketing of Nong's® CCMG products in the Hong Kong market. Ms. Ho joined the Group in January 2005 as Manager, Ethical division. Prior to joining the Group, in 2002, Ms. Ho was an Assistant Customer Service Manager of Watsons Water, a manufacturer of pure distilled water, where she was primarily responsible for customer services for Watson's water. In 2003, Ms. Ho was an Assistant Business Information Manager and she was responsible for IT project co-ordination and sales administration. She received a Bachelor's Degree in Business from Monash University in Australia in 2002.

Mr. Cheung Kwun Kiu (張冠翹), aged 36, is the financial controller of the Company. He is responsible for the Group's overall financial reporting and operation management, corporate finance and investment activities. Mr. Cheung joined the Group in 2021 as financial controller. Mr. Cheung is a member of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and an Associate Member of both The Hong Kong Chartered Governance Institute (formerly known as Hong Kong Institute of Chartered Secretaries) ("HKCGI") and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) ("CGI"). Mr. Cheung had previously worked in an international accounting firm, companies listed on the Main Board of the Stock Exchange and certain private companies. Mr. Cheung has extensive experience in auditing, accounting, treasury and corporate secretaryship.

Ms. Ruan Qiong (阮瓊), aged 44, is the General Manager of China Sales & Marketing. She is responsible for the Group's sales and marketing in China market. Ms. Ruan joined the Group in January 2019 as General Manager of China Sales and Marketing. Prior to joining the Group, from 2009 to 2018, Ms. Ruan worked for Eli Lilly Pharmaceutical Company as a Marketing Director and then a Business Unit Head where she was primarily responsible for sales & marketing of hospital, retail and e-commerce channel; from 2001 to 2008, Ms. Ruan worked for Boehringer Ingelheim Pharmaceutical Company as a sales associate, and then a trade marketing manager for consumer health care division. She received a bachelor's degree from the University of Shanghai for Science and Technology and Certificate from City University of New York in 2001.

Mr. Shi Gang (石鋼), aged 66, is the Vice President of Greater China. Mr. Shi joined our Group as the Chief representative of the Beijing representative office and Vice President of the Greater China region in October 2004. He is mainly responsible for liaising with government departments in the PRC with respect to our Group's operation, liaising with the China Food and Drug Administration at the provincial level, obtaining sales approval and monitoring the relevant policies and regulations in the PRC. Prior to joining our Group, Mr. Shi was appointed as the Chief representative of Ryoden (Holdings) Limited (菱電(集團)有限公司) in 1992, a company principally engaged in the elevator business, where he was primarily responsible for human resources and operational management of the Beijing representative office, as well as liaising with government departments and leaders in Beijing on behalf of the board of directors of Ryoden (Holdings) Limited (菱電(集團)有限公司). Mr. Shi was accredited as an electrical engineer in the PRC by The Ministry of Science and Technology of the PRC (中華人民共和國國家科學技術委員會) in November 1994. Mr. Shi received his Bachelor's Degree in journalism from Beijing Renwen University (北京人文大學) (formerly known as Beijing Renwen Hanshou University (北京人文函授大學)) in May 1987. He completed the Beijing Foreign Investment Enterprise senior management training course (北京市外商投資企業中方高級管理人員培訓班) and the Beijing Foreign Investment Enterprise personnel management training course (北京外商投資企業人事管理培訓) organised by the Beijing Personnel Bureau (北京市人事局) in December 1994 and November 1994, respectively.

Corporate Milestones

Corporate Milestones

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

1998

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

2002

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

2004

- The Group was selected as one of the six pilot manufacturers and also the only non-PRC company that is licensed by the China Food and Drug Administration (the "CFDA") to manufacture and sell CCMG products in China.


国家食品药品监督管理局文件

- The Group became a CCMG product supplier of the majority of Hong Kong hospitals and healthcare institutions with Traditional Chinese Medicine (the "TCM").

- The Group began to sell its CCMG products to mobile clinics operated by non-profit organisation customers.

2009

- The Group's testing laboratory was certified by the China National Accreditation Service for Conformity Assessment (the "CNAS"), an international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards.

- The Group's ONCO-Z coriolus versicolor extract, the sole ingredient of one of the Group's Chinese healthcare products, Oncozac® (安固生®), was verified by the United States Pharmacopoeia (the "USP") as dietary ingredient and became the world's first TCM ingredient verified by the USP. The USP medicine standards are widely recognised as one of the most strict quality control standards for assessment of the identity, strength, quality, and purity of medicines.

2010

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

2011

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

2014

- The Group's Radix Astragali (黃芪) Formula Granules was verified by the USP Dietary Ingredient Verification Program

- Nong's® (農本方®) was awarded "Hong Kong Top Brand Awards" issued by the Hong Kong Brand Development Council.

2015

- The shares of the Company (the "Shares") were listed on the Main Board of the Stock Exchange on 8 July 2015 (the "Listing Date").

- The 30th Nong's® (農本方®) clinic was opened in Hong Kong.

2016

- The Group operated the first Nong's® (農本方®) clinic in Canada.

- The Group signed a cooperation agreement with the Chinese University of Hong Kong ("CUHK") and Hong Kong Baptist University ("HKBU") on the first new drug with integrative research successfully obtaining clinical trial for drug approval by CFDA.

- The Group commenced operations of the first private integrated Chinese and western medical centre for mammary gland disease in Hong Kong which was also the 50th Nong's clinic.

- Nong's clinic became the largest Chinese medicine clinic chain in Hong Kong.

2017

- In March, the Group acquired K'an Herb Company, Inc. ("KAN"), a company located in California, USA, and principally engaged in the manufacturing of Chinese herbal formulas in the U.S. and sales to distributors and healthcare practitioners in the U.S. and Europe.

- In April, PuraPharm acquired the entire equity interest of two companies in Guizhou province, China, namely Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. and Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd..

- In August, PuraPharm acquired SODX Co., Ltd. ("SODX"), a Japan-based company that engages in the manufacturing and sales of health food in Japan. Upon the acquisition SODX's factory will serve as a pilot factory to transfer the latest technological know-how from Japan to further improve PuraPharm's products' quality and production efficiency, and to act as the Group's new product development centre for business expansion.

2018

- The Group moved forward into 2nd phase of clinical trial process on Ren Shu Chang Le Granules (仁朮腸樂顆粒) for the treatment of irritable bowel syndrome (治療腸易激綜合症).

- Nong's® (農本方®) was awarded "Hong Kong Pharmacy's Top 20 Most Popular Brand Award" issued by H.K. General Chamber Of Pharmacy.

2019

- PuraPharm was awarded the highest honour of "Invotech Firestarters Platinum Award 2019" by Invotech, set up by the Business and Professionals Federation of Hong Kong, for the Group's achievements in promoting innovation and entrepreneurship in Chinese Medicine.

- PuraPharm's Business & Innovation Centre, a newly established unit commissioned to nurture innovation within the Group, to initiate new products and business, and to steer and drive projects to product launch in the market place was installed.

- Nong's® introduced a new look, and a more convenient and consumer-friendly packaging design, to its range of Nong's OTC Formula products.

- Nong's® launched a new range of ten OTC Chinese Medicine Capsules products, targeted for consumers' general relief, overall health and wellbeing.

2020

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

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

- The Group launched an immunity boosting product, Immuzac+™, an enhanced version of Immuzac® fortified with vitamin C and manufacturing in Japan.

- The Group launched the Nong's cinematic brand TVC in March 2020.

- The Group has revamped a new research and development centre in Nanning, to enhance the Group's research and development capability for innovative products development, and preparation for the upcoming national CCMG standardization in China.

- The Group has completed phase one of new production facility in Nanning, which composed of 3 modernised warehouse buildings with total gross floor area of 25,079 square metres in aggregate, as a central hub for supply chain.

2021

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

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

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

Chairman's Statement

NONG'S 農本方
銀翹 感冒沖劑
Flu Formula
電話：(852) 2840 1840
www.purapharm.com
中成藥註冊編號 / pCm Reg. No.: HKC-17283
有效期至：(日/月/年)
批次編號：
有效成分：金銀花、連翹、桔梗、薄荷、牛蒡子、淡竹葉、荊芥、甘草、淡豆豉及蘆根。
每日三次，每次一包，先加熱水再放沖劑，攪拌至溶解後即可服用。
Three times daily, one sachet each time. Pour granules into hot water, stir to dissolve.
4克

Chairman's Statement

DEAR SHAREHOLDERS,

The COVID-19 pandemic continues to rock the global economy. Following the shutdowns of 2020, 2021 continued to be a challenging year for most industries. The recent 5th outbreak involving the Omicron variant in Hong Kong has greatly impacted local businesses and the economy, and the ongoing armed conflict in Eastern Europe is further dampening the already weak business sentiment because of fear of inflation. It is anticipated the remainder of 2022 will be a year of uncertainties and challenges for Hong Kong as well as the rest of the world.

With better control of the pandemic in 2021 for both PRC and Hong Kong, the Group has benefited from the resumption of consumers' activities. The Group reported a revenue of HK$659.6 million, representing an increase of HK$57.8 million or 9.6% compared to HK$601.8 million in that of 2020. Despite the rebound in revenue, the Group recorded a net loss of HK$121.9 million, as compared with the net profit of HK$31.7 million in 2020.

The loss for the year was mainly attributable to the two significant impairments on biological assets and goodwill of the Group's Guizhou plantation business, which are non-recurring and non-cash in nature. As an initiative to transform the plantation business in Guizhou, the Group installed a new management team there in 2021. The Group will continue the transformation of the plantation business model and strategy, and target to achieve a segment profitability within the year.

Another factor that impacted the Group's performance in 2021 was attributable to the reduction in government grants received from both the PRC and the Hong Kong governments. Despite the attributable losses, the Group's continuing efforts in adopting a stringent cost control policy and improving our operations efficiency had led to a narrowing of our operating loss position in 2021.

PROSPECTS

Notwithstanding the special times we are experiencing, the Group believes that the economy will return gradually to a sustainable and stable state with an improved vaccination rate and effective social distancing measures put in place by the Government. With the increasing acceptance of Chinese medicine in fighting against COVID-19, and an increasing demand in boosting one's immunity, the pharmaceutical industry, and particularly Chinese medicine, will continue to be one of the most important sectors of the national economy and will continue to benefit from upcoming policies.

The great observation learned from the pandemic is that the global citizen's awareness of healthcare, well-being and sanitary protection has largely increased. This trend accords to our long-held mission to provide more quality healthcare products that consumers can purchase from our online and offline platforms.

Last year, the Chinese National Medical Products Administration ("NMPA") announced the ending of the provisional testing manufacturing sites for concentrated Chinese medicine granules ("CCMG"), of which we were one of the 5 participants. In October 2021, the NMPA published 196 CCMG national standards, restricting only products that comply with the published standards be sold in China. This limited range of products allowable for sale will likely impact normal CCMG sales for our Group in China in 2022, and until the full range of CCMG national standards are published, regular CCMG sales may continue to be disrupted. As we work towards meeting the national standards for all our products, the Group will continue to monitor our financial and cash position to address such impact. It is anticipated that the CCMG market will be progressively opened as the full CCMG national standards are being published. Competition is anticipated to be fierce with keen price competition as more players will enter the market if they can fulfill the requirements of the national standards. However, the Group sees the opening of the market as both an opportunity rather than just a threat. With the Group's strategy of positioning our Nong's CCMG as a premium brand and targeting towards the upscale segment, we envisage that the deregulation of the CCMG market will unleash the demand for CCMG products thus growing the overall market.

Since the pandemic outbreak, the Group has been putting efforts on establishing a new customer-friendly online platform and mobile app, which will further be linked to our cloud-based data center to create and store the growing digital assets. In this regard, the Group's full chain of Nong's® Chinese medicine clinics launched the 3rd generation cloud-based Chinese Medicine Clinic Management system, the Traditional Chinese Medicine Advisor (TCMA 3.0), offering instant database synchronization and real time patients' information accessibility, resulting in more timely, more convenient, and more accessible Chinese medicine diagnosis and treatment services. The cloud-based consultation and management system is interfaced with a consultation analytics platform enabling evidence-based research and big data analytics of Chinese medicine consultations and prescriptions, providing a brand-new experience to traditional Chinese medicine practitioners and patients. In addition, the Group will continue to transform our online retailing business to cater for the younger generation with extensive social marketing initiatives. It is intended that the optimization of the digitalization of the retail business will result in a boost to our revenue and create more value for our shareholders.

The Group is setting up an office in the Greater Bay Area (Guangdong Province of Mainland China and Macau) and will initiate business activities in the region, where the young and tech-savvy talents are mostly populated. The new generation of imported talents, the efficient government system and favourable policies in recent years greatly contributed to the robust economy and fast-growing consuming power of the Greater Bay Area ("GBA"). With the GBA neighboring Hong Kong geographically, the psychographics of the populations of both locations share a lot in common. The Group believes the GBA offer important new opportunities for the Group to seize and to develop. The Group are actively looking for local partners in the GBA to formulate viable business plans and solutions to establish its presence in the market.

APPRECIATION

Last but not least, I would like to express my sincere gratitude to our clients, staff and business partners for their unwavering support and confidence towards the Group, and also to the Board of Directors for their efforts and contributions.

Chan Yu Ling, Abraham
Chairman

Hong Kong, 29 March 2022

Corporate Profile


NONG'S
農本方
PuraPharm
感冒沖劑
銀翹散
Flu Formula
現代化．不用煎煮的即溶中藥
Modernized Instantly Soluble Chinese Medicine
每盒6包．每包4克 • 6 sachets x 4g

Corporate Profile

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

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

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

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

CORPORATE STRENGTHS

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

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

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

- The Group is a pioneering research and development company dedicated to the modernisation and internationalisation of Chinese medicine and its proven track record in the development of new TCM products, in particular CCMG combo formulae products, differentiates it from its competitors.

- Aiming to enhance the Group's research and development capability, the Group has revamped a new research and development centre, with total gross floor area of 1,632 square metres, in Nanning, for innovative products development, and preparation for the upcoming national CCMG standardization in China.

STATE-OF-THE-ART PRODUCTION FACILITIES

One of the Finest TCM Facilities in Asia

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

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

New Smart Factory in Nanning

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

Pilot Factory at Japan

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

USA GMP Factory

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

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

Products and Services Overview

Products and Services Overview

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

Our mission is simple:

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

NONG'S CCMG PRODUCTS

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

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

OTC PRODUCTS

With innovative insights and advanced technologies, PuraPharm has also developed a series of over-the-counter health products, among which, brands such as PuraGold®, Oncozac®, Immuzac® and Haveron® enjoy great popularity in Hong Kong and overseas. The Group's ONCO-Z® Coriolus Versicolor Extract, the sole active ingredient of Oncozac®, was verified by the United States Pharmacopeial Convention (USP) and was the world's first traditional Chinese medicinal ingredient verified by the USP Dietary Ingredient Verification Program. The USP standards are adopted in more than 140 countries in the world and are also widely recognised as one of the most stringent set of quality control standards for the assessment of the identity, strength, quality and purity of medicines. Our certifications under these international standards are testaments to the Group's advanced production capacity and outstanding product quality.

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

NONG'S CLINICS

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

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

The Group's characteristics:

1. High-quality Chinese Medical Service
   - All practitioners in the Group's Nong's® (農本方®) Chinese Medicine clinics are qualified University graduates and are registered CMPs, with profound knowledge in Chinese Medicine and years of clinical experience.
   - Acupuncture and cupping services are also offered so as to provide the most suitable treatment for patients.

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

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

Management Discussion and Analysis

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

	Year ended 31 December				Change	
	2021 HK$'000	% of total	2020 HK$'000	% of total	HK$'000	%
Revenue						
— China CCMG	352,996	53.5%	278,478	46.3%	74,518	26.8%
— Hong Kong CCMG	162,740	24.7%	146,433	24.3%	16,307	11.1%
— Chinese healthcare products	78,098	11.8%	85,752	14.2%	(7,654)	-8.9%
— Nong's ® (農本方) Chinese medicine clinics	50,027	7.6%	49,924	8.3%	103	0.2%
— Plantation	15,731	2.4%	41,228	6.9%	(25,497)	-61.8%
	659,592	100.0%	601,815	100.0%	57,777	9.6%
Gross profit	423,353		369,949		53,404	14.4%
Net (loss)/profit for the year	(121,877)		31,710			

The Group's revenue for the year ended 31 December 2021 was HK$659.6 million, representing an increase of HK$57.8 million or 9.6% compared to HK$601.8 million in last year. The revenue increase was mainly attributable to the resumption of consumer activity as the COVID-19 pandemic in the People's Republic of China (the "PRC") and Hong Kong have largely been under control since early 2021, which drove the rebound of consumers' sentiment and the demand for Chinese medicine services during the year ended 31 December 2020. The overall increase in the Group's revenue was partly offset by the decrease in revenue in the plantation segment, as the upstream plantation segment contributed HK$15.7 million to the Group's overall revenue, representing a decrease from HK$41.2 million recorded in the corresponding period in last year by HK$25.5 million or 61.9%.

The Group recorded a net loss of HK$121.9 million for the year ended 31 December 2021, as compared with the net profit of HK$31.7 million in last year. The turnaround from net profit to net loss for the year ended 31 December 2021 is mainly attributable to the following factors:

(i) an impairment loss on biological assets of HK$47.5 million related to the Group's plantation segment recognised for the year ended 31 December 2021 as compared to a fair value gain on biological assets of HK$20.8 million in last year;

(ii) an impairment loss of goodwill of HK$67.3 million in respect of the Group's plantation segment; and

(iii) significant decrease in the receipt in non-recurring government grants of HK$8.1 million recorded by the Group as other income and gains for the year ended 31 December 2021, representing a decrease of HK$57.7 million compared to last year of HK$65.8 million. The government grants were mainly consisted of the sum received from the relevant authorities of the PRC for the Group's finance costs subsidies, tax refund and grants for certain research and development projects.

If excluded such non-recurring revaluation on biological assets, impairment loss on goodwill, and the government grant income, the Group recorded an adjusted operating loss of HK$14.6 million for the year ended 31 December 2021, which was materially less than the operating loss adjusted under the same manner of last year of HK$54.9 million, due to rebound of both China CCMG and Hong Kong CCMG sales benefited from the resumption of consumer activity during the year ended 31 December 2021. And majority of such operating loss was resulted from first half of 2020, the revenue and profitability were improving in the second half of 2020 due to the control of the COVID-19 pandemic, especially in China market.

The following table sets out the key financial figures of the Group in the first and second half of 2021:

	2021 2H	2021 1H	Change	
	HK$'000	HK$'000	HK$'000	%
Revenue	356,835	302,757	54,078	17.9%
Net (loss)/profit for the year	(133,851)	11,974	(145,825)	-1,217.8%
Government grants	1,680	6,435	(4,755)	-73.9%
Adjusted net operating (loss)/profit	(135,531)	5,539	(141,070)	-2,546.8%

CHINA CCMG

For the year ended 31 December 2021, the sales of CCMG in China was HK$353.0 million, representing an increase of HK$74.5 million or 26.8% compared to HK$278.5 million in last year. Due to the combined effect of the control of COVID-19 pandemic since early 2021 and the announcement by PRC Government of the new national standards of CCMG, the customers tended to purchase more CCMG for consumption in 2021 as well as for future sales in the transition period in 2022. As a result, the China CCMG sales business benefited from such a surge in demand, especially in second half of 2021.

HONG KONG CCMG

The Group continued to maintain its leading market position in Hong Kong and sell its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the year ended 31 December 2021, the direct sales of CCMG products in Hong Kong was HK$162.7 million, representing an increase of HK$16.3 million or 11.1% compared with last year. The control of COVID-19 pandemic since early 2021 contributed to an improvement to the overall business environment and resumed consumer activity in Hong Kong, this led to an increase in demand for CCMG products from the Group.

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

During the year ended 31 December 2021, the sales of CCMG products and provision of Chinese medical services from the Group's Nong's® (農本方®) Chinese medicine clinics was HK$50.0 million in aggregate, representing a slight increase of HK$0.1 million or 0.2% compared to HK$49.9 million in last year. The revenue remained stable and was attributable to the resumption of consumer activity, offset by downsizing of the clinic network in Hong Kong. The number of clinics in operation in Hong Kong decreased from 30 as at 31 December 2020 to 25 as at 31 December 2021.

While the revenue of Nong's clinics segment remained stable, the loss attributed by Nong's clinics segment has increased during the year ended 31 December 2021 as the Group's Shanghai Clinic has recorded an operating loss as it has been in first full year of business operating and the closure of the Nanning Clinic, which led to one-off compensation to staff and write-off of fixed assets.

The Group will continue to improve the performance of the existing clinic portfolio and proactively negotiate with the landlords on rental reduction in order to achieve profitability in this segment as early as possible.

CHINESE HEALTHCARE PRODUCTS

Sales by regions

	Year ended 31 December					
	2021		2020		Change	
	Revenue HK$'000	% of total	Revenue HK$'000	% of total	HK$'000	%
United States of America (the "U.S.A.")	31,537	40.4%	38,429	44.8%	(6,892)	-17.9%
Japan	9,428	12.1%	10,797	12.6%	(1,364)	-12.6%
Hong Kong	37,133	47.5%	36,526	42.6%	602	1.6%
	78,098	100.0%	85,752	100.0%	(7,654)	-8.9%

During the year ended 31 December 2021, revenue from sales of Chinese healthcare products in U.S.A., Japan and Hong Kong markets was HK$78.1 million in aggregate, representing a decrease of HK$7.7 million or 8.9% as compared to HK$85.8 million in last year.

Among the Group's Chinese healthcare products segment, the sales in overseas market recorded a decrease in the U.S.A.. This was due to the severe outbreak of the COVID-19 pandemic that led to stringent social distancing measures in the U.S.A., which in turn impacted the supply chain for raw materials and factory labour supply. The sales in Hong Kong market remained stable as the COVID-19 pandemic has been under control since early 2021, which has driven the rebound of consumers' sentiment in general in pharmacies and key chain stores.

Subsequent to the outbreak of COVID-19 pandemic, the Group believed that consumers' health awareness will increase, which will contribute to the growth in demand for healthcare products and render further opportunities for the Group's Chinese healthcare products segment. The Group will continue to proactively develop new and innovative healthcare products to enrich the products portfolio, devote more focus for marketing the Group's healthcare products through online platform in order to prepare for the rebound of the retail market.

PLANTATION

For the year ended 31 December 2021, the upstream plantation segment contributed HK$15.7 million to the Group's overall revenue, representing a decrease from HK$41.2 million of last year by HK$25.5 million or 61.9%. The revenue from the plantation segment was mainly derived from the plantation and trading of raw Chinese herbs. The decrease in revenue from the plantation segment was mainly attributable to changes in management personnel, which caused a decrease in Chinese raw herbs trading business during the transition period.

During the year ended 31 December 2021, the Group has recognised a non-recurring impairment loss on biological assets of HK$47.5 million due to the reduction of expected future output of raw Chinese herbs as a result of the lower level of soil fertility and sunlight as well as the changes in management personnel. The Group has also recorded a non-recurring impairment loss on goodwill of HK$67.3 million because of the change in business plan and strategy in the plantation business, changes in management personnel of the plantation business and the aforementioned impairment loss of the Group's biological assets.

GROSS PROFIT

	Year ended 31 December		
	2021 HK$'000	2020 HK$'000	Change %
Revenue	659,592	601,815	-9.6%
Cost of sales	236,239	231,866	-1.9%
Gross Profit	423,353	369,949	-14.4%
Gross profit margin	64.2%	61.5%	

The Group's gross profit margin for the year ended 31 December 2021 was 64.2%, representing an increase of 2.7%, compared to 61.5% in last year. This is the result of the combined effect of the slight increase in the average selling price of CCMG in the PRC market, partly offset by the plantation segment's gross loss due to an one-off discount sales of certain aged inventory, while other business segments remained stable during the year ended 31 December 2021.

OTHER INCOME AND GAINS

The Group's other income and gains mainly comprised of government grants, fair value gain on biological assets, net foreign exchange gain, gain from sale of equipment and accessories, financial assets at fair value through profit or loss and interest income. For the year ended 31 December 2021, the Group's other income and gain was HK$12.5 million, representing a significant decrease of HK$82.2 million compared to HK$94.7 million in last year.

The decrease was mainly due to the receipt of non-recurring government grants of HK$8.1 million recorded by the Group for the year ended 31 December 2021, representing a decrease of HK$57.7 million compared to last year of HK$65.8 million. The government grants were mainly consisted of the sum received from the relevant authorities of the PRC for the Group's finance costs subsidies, tax refund and grants for certain research and development projects.

The Group also recorded an impairment loss on biological assets of HK$47.5 million under the plantation segment of the Group in Guizhou provinces, which is included in the Group's other expenses, as compared to a net fair value gain on biological assets of HK$20.8 million in last year.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses, and sales and marketing departmental expenses. For the year ended 31 December 2021, the Group's selling and distribution expenses was HK$220.0 million, representing an increase of HK$9.5 million or 4.5% compared to HK$210.5 million in last year. The increase was mainly attributable to (i) increase in marketing activities in China CCMG segment in line with the increase in sales and (ii) increase in staff cost due to the increase in bonus as associated with the sales boost in both China CCMG and Hong Kong CCMG segments.

For the year ended 31 December 2021, selling and distribution expenses as a percentage to revenue decreased from 35% for last year to 33.4%. Despite the increase in sales for the year ended 31 December 2021, the Group maintained a reasonable marketing expenses to keep the market awareness and brand competitiveness of the Group's products.

ADMINISTRATIVE EXPENSES

	Year ended 31 December			
	2021	2020	Change	
	HK$'000	HK$'000	HK$'000	%
Clinics operating expenses	36,217	32,802	3,415	10.4%
Research and development costs	25,452	22,038	3,414	15.5%
General administrative expenses	106,782	98,617	8,165	8.3%
Total administrative expenses	168,451	153,457	14,994	9.8%

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

For the year ended 31 December 2021, the Group's operating expenses for clinics segment was HK$36.2 million, representing an increase of HK$3.4 million or 10.4% compared to HK$32.8 million in last year. The increase was mainly attributable to the entering of a new short-term lease and certain renewals of rental agreements.

The research and development costs for the year ended 31 December 2021 increased by HK$3.4 million or 15.5%, mainly due to more research and development expenses were spent to meet the newly issued national standards for CCMG in China and resumption of certain development projects as COVID-19 pandemic is under control since early 2021.

The Group's general administrative expenses for the year ended 31 December 2021 increased by HK$8.2 million or 8.3%, to HK$106.8 million due to (i) increase in depreciation and amortization of the new production facilities in Nanning as being converted to fixed assets in 2020; (ii) additional urban land use tax and property tax of the new production facilities; and (iii) increase in legal and professional fees especially for the valuation fee of the biological assets.

OTHER EXPENSES

The Group's other expenses mainly comprised of an impairment loss on biological assets, voluntary charity donation, and fair value loss on investment properties. The increase in other expenses was mainly due to the impairment loss on biological assets of HK$47.5 million recorded in the year ended 31 December 2021, while it was a net fair value gain on biological assets of HK$20.8 million in last year.

FINANCE COSTS

For the year ended 31 December 2021, the Group's finance costs amounted to HK$27.0 million, slightly increased by HK$0.2 million or 0.7% as compared to HK$26.8 million in last year. The increase in interest cost was in line with the increase in average utilisation of bank and other borrowings during the year ended 31 December 2021.

INCOME TAX EXPENSE

The Group's income tax expenses decreased from HK$8.5 million in last year to HK$4.7 million for the year ended 31 December 2021. The decrease in income tax expense was mainly due to more tax losses from previous periods were utilized in China and decrease in income tax expenses in the Group's operations in the U.S.A. and Japan for the year ended 31 December 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the business plan disclosed in this annual report, the Group did not have any future plans for material investments or capital assets as at 31 December 2021.

LIQUIDITY AND FINANCIAL RESOURCES

Cash position and interest-bearing bank and other borrowings

	Year ended 31 December			
	2021	2020	Change	
	HK$'000	HK$'000	HK$'000	%
Net current (liabilities)/assets	(54,457)	15,791	(84,277)	-534%
Cash and cash equivalent	59,671	91,401	(31,730)	-35%
Interest-bearing bank and other borrowings	(499,668)	(458,321)	(41,347)	9%
Current portion	(406,671)	(279,329)	(142,371)	51%
Non-current portion	(91,997)	(178,992)	101,024	-56%
Unused bank facilities	67,732	61,488	6,244	10%

The Group generally finances its operation with operating cash flows and bank and other borrowing facilities. The Group actively manages the cash and borrowings of the Group to ensure an appropriate level of liquidity and sufficient funds are available to meet the Group's business need.

Cash flow and liquidity ratio analysis

	Year ended 31 December		
	2021 HK$'000	2020 HK$'000	
Net cash (used in)/generated from operating activities	(14,520)	119,854	(134,374)
Net cash generated from/(used in) investing activities	6,005	(92,110)	98,115
Net cash used in financing activities	(16,035)	(3,613)	(12,422)
Current ratio	0.9	1.0	
Gearing ratio	1.2	0.9	

For the year ended 31 December 2021, the Group's net cash used in operating activities was HK$14.5 million, which was lower than last year by HK$134.4 million. The decrease in operating cash inflow was mainly due to the increase in trade and bills receivables of China CCMG sales as a result of the sales surge in the second half of 2021 and increase in cash outflow for settlement of trade and bills payables for the raw material purchase for production.

For the year ended 31 December 2021, the Group's net cash generated from investing activities was HK$6.0 million, which was mainly the combined effect of the decrease in pledged time deposit and the proceed from disposals of property, plant and equipment. The Group's net cash used in investing activities was HK$92.1 million in last year due to significant constructions of new warehouse and research and development building in Nanning.

For the year ended 31 December 2021, the Group's net cash used in financing activities was HK$16.0 million, representing an increase by HK$12.4 million as compared to last year due to the combined effect of the net proceed of Rights Issue of HK$98.0 million received in last year, which is partly offset by the net increase in bank loans and other borrowings by HK$41.4 million during the year ended 31 December 2021.

The Group's current ratio decreased from 1.0 as at 31 December 2020 to 0.9 as at 31 December 2021, such decrease was mainly attributable to the increase in current portion of interest-bearing bank and other borrowing as the Group has reclassified certain long-term loans as short-term financing according to some accounting treatments. If excluded such reclassification, the Group's current ratio was 1.0 as at 31 December 2021.

The Group's gearing ratio (calculated by dividing total interest-bearing bank and other borrowings by total equity) increased from 0.9 as at 31 December 2020 to 1.2 as at 31 December 2021. Such increase was mainly attributable to (i) decrease in the Group's equity as a result of the net loss for the year ended 31 December 2021; and (ii) increase in the utilisation of interest-bearing bank and other borrowings during the year ended 31 December 2021.

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

PLEDGE OF ASSETS

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

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Property, plant and equipment	158,870	142,575
Right-of-use assets	37,826	33,588
Financial assets at fair value through profit or loss	18,562	18,258
Inventories	42,858	41,717
Trade and bills receivables	54,775	34,124
Pledged bank deposits	25,383	35,056
Investment Property	6,560	—
	344,834	305,318

CAPITAL COMMITMENT

The Group had the following capital commitment:

	Year ended 31 December 2021 HK$'000	2020 HK$'000
Land and Buildings	28,542	22,375
Plant and machinery	1,369	1,212
	29,911	23,587

CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 31 December 2021.

EXCHANGE RISK

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

HUMAN RESOURCES

As at 31 December 2021, the Group had a total of 675 employees (31 December 2020: 711 employees). During the year ended 31 December 2021, total staff costs excluding Directors' remuneration was HK$90.3 million (31 December 2020: HK$87.8 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the performance of the Group and individuals. The Group also allocated resources for continuing education and would arrange regular trainings to staff members and management personnel to improve their skills and knowledge.

Environmental, Social and Governance Report


E S G

Environmental, Social and Governance Report

1. ABOUT THE REPORT

1.1. Reporting standards, scope & period

The Environmental, Social and Governance ("ESG") report (the "report") was prepared in accordance with Appendix 27 to the Rules governing the Listing of Securities (the "Listing Rules") Environmental, Social and Governance Reporting Guide ("ESG Guide") issued by The Stock Exchange of Hong Kong Limited. The Group adhered to the principles of materiality, quantitative, balance and consistency to report on its ESG measures and performances. Information regarding corporate governance is addressed separately in the annual report in pursuance of Appendix 14 of the Listing Rules.

The scope of the report consisted of the Group's offices, manufacturing plants, warehouses and Nong's clinics operating in Hong Kong and Beijing, Shanghai, Guizhou and Guangxi, the People's Republic of China (the "PRC"), unless otherwise specified. Following the reporting principle of materiality, the operations in Japan and the United States are not included in this report as the environmental and social impacts of the operation are insignificant and immaterial to the business and the community.

The establishment of the Chinese medicine clinic, Nong's clinics in 2014 was to support various stakeholders' demands. The network of Nong's clinics is achieving the mission of the Group to bring longer, healthier and happier lives by providing quality pharmaceutical products and services to the community. 43 Nong's clinics in Hong Kong and 1 in Guangxi were included in the reporting scope.

This report covered the financial reporting period from 1 January 2021 to 31 December 2021 (the "reporting period"). All ESG-related activities during the reporting period were presented in this report.

1.2. Reporting principle

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

- Materiality: The Group has invited its key stakeholders including employees, suppliers and customers across 2021 to complete the sustainability survey. Based on the survey results, a materiality matrix was created to identify the material topics to the business operation. For details about the assessment, please refer to the section headed "Materiality assessment".

- Quantitative: To evaluate and review the effectiveness of ESG policies and management approach, the Group records, calculates and reports the ESG-related information in a quantitative basis. The Group has engaged an independent consultant to perform the calculations to sustain the accuracy and validity of the data.

- Balance: The Group discloses its ESG performance fairly and unbiasedly. The Group not only discloses the management approach and initiatives of the material issues, but also the challenges.

- Consistency: The Group consistently publishes its ESG Report annually in accordance with the HKEx ESG Reporting Guide and the constant calculation methodologies to provide consistent and comparable disclosure.

2. CONTACT DETAILS

The Group values any opinions and perceive them as drivers of improvement. Any stakeholders who have questions or comments are most welcome to contact us by calling our hotline on 2840–1840 from 9 a.m. to 6 p.m. (Monday to Friday, excluding Hong Kong public holidays) or email to info@purapharm.com.

3. CHAIRMAN MESSAGE

Dear Stakeholders,

We are pleased to present our Environmental, Social and Governance Report and the sustainability-related achievements we made throughout 2021.

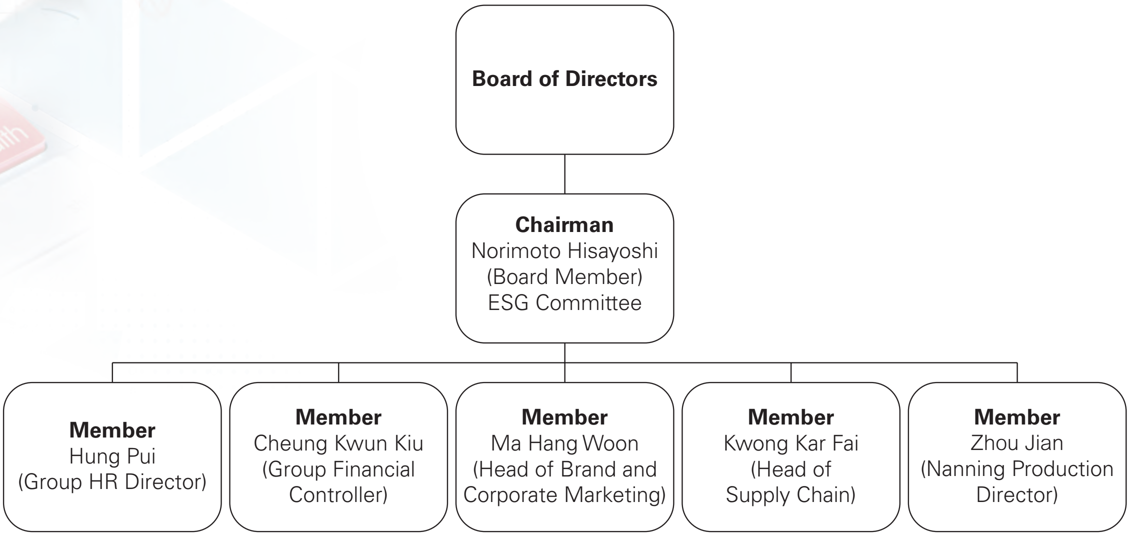
Against the backdrop of the ongoing pandemic, we strive to safeguard the health of our employees, customers and communities while providing quality products. Amid the inevitable and unprecedent impacts brought by the virus, we managed to adjust our operations and adapt to the new normal rapidly. We believe the pandemic has also given us a new opportunity to learn and prepare for future. Because of COVID-19 pandemic, we have intensified our efforts in relation to ESG issues. The Board of Directors (the "Board") was also aware of the new ESG requirements instituted by the HKEx. As a Chinese medicine manufacturer, climate-related risk is one of the major risk threating our operation since the raw herb supplies are prone to the natural disaster and climate events. In the light of this, we have developed corresponding environmental targets and policies to manage the associated risks.

On behalf of the Board and PuraPharm, I would like to express our sincere appreciation and gratitude to our employees for their persistent effort and our other stakeholders for their support under this difficult time. We will continue to promote sustainability and stability of our business. Meantime, we intend to elevate the positioning of our products and to differentiate ourselves from other competitors in order to be the most premium brand in the industry.

Chan Yu Ling, Abraham
Chairman

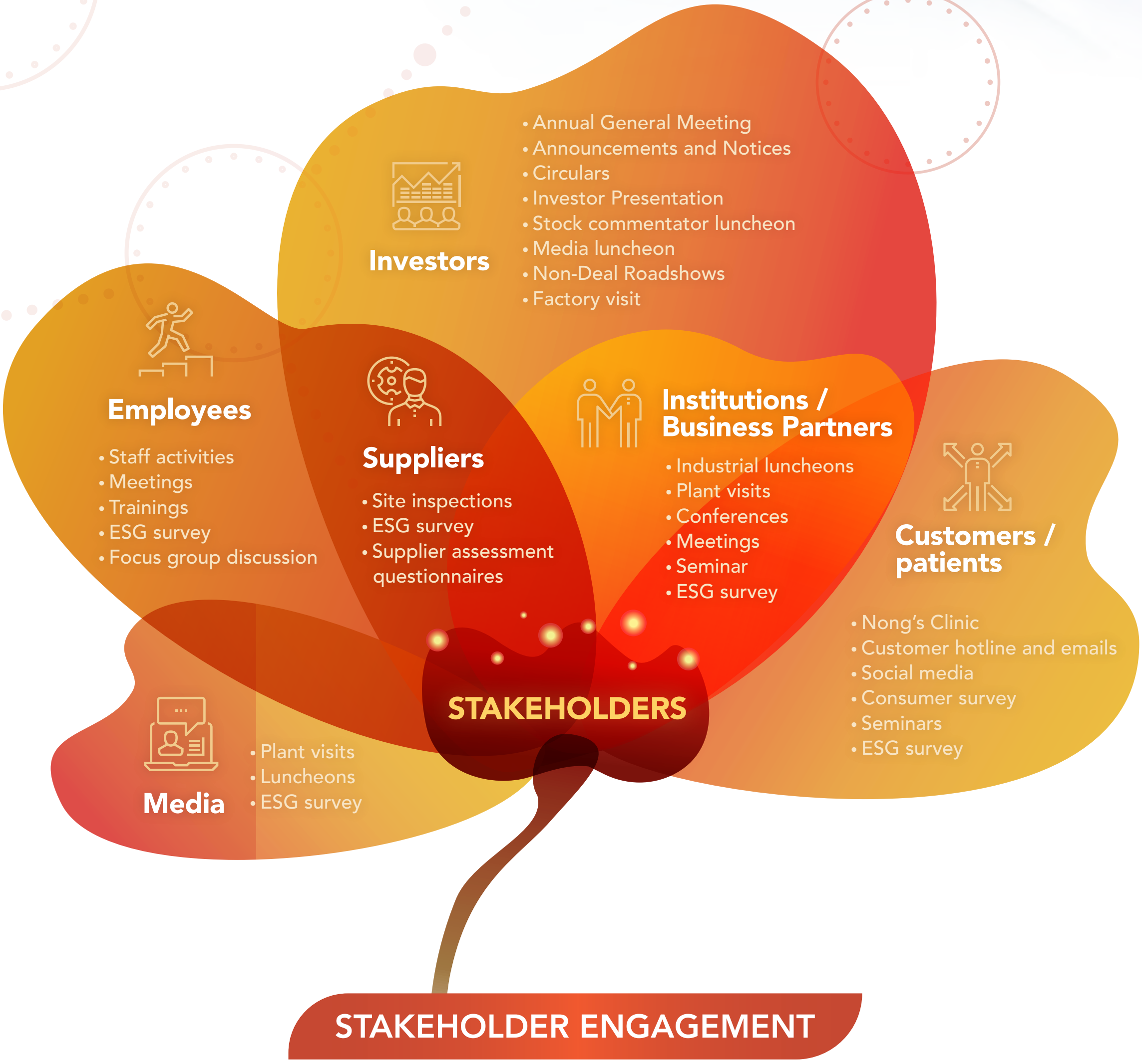
4. SUSTAINABILITY GOVERNANCE

The board of directors of PuraPharm is the highest decision-making body responsible for the overall ESG management and reporting. The board has established a committee of the board known as the Environmental, Social and Governance Committee (the "ESG Committee") The ESG Committee consist of one board member and heads of corporate-level departments. The ESG Committee is to advise and assist the Board in managing matters relating to ESG of the Group, such as governance, policies, initiatives, performance, and reporting.



5. STAKEHOLDER ENGAGEMENT

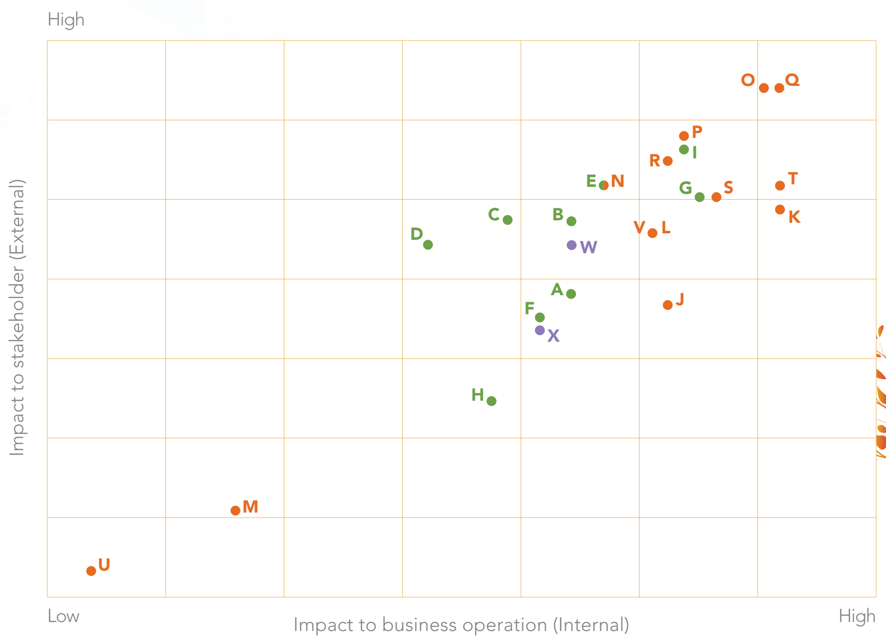
PuraPharm values deeply about the stakeholders' view in the way to sustainable development. Therefore, the Group has established the following communication channels for its key stakeholder to enable free flow of feedback:



6. MATERIALITY ASSESSMENT

As a key part of the sustainable development, materiality assessment enables the Group to further understand the stakeholders' expectations on the Group's development, and prioritise the ESG topics by their importance to the Group. During the reporting period, the Group has conducted a sustainability survey with its elemental stakeholders including but not limited to employees, suppliers and customers. They were invited to rate the materiality of various ESG topics to PuraPharm's long-term business development. A total of 140 responses were received, in which 74 were from the employees and 66 were collected from suppliers, customers, media and other external stakeholders. Based on the results of the survey, a materiality matrix was created to identify the most material ESG topics to the Group. As identified by the matrix, product quality assurance and compliance with relevant environmental laws and regulations were selected as the most concerned social and environmental topics to the business respectively.

MATERIALITY MATRIX



Environment

- A Energy usage and conservation
- B Air pollutants emissions
- C Greenhouse gas emission
- D Water consumption and conservation
- E Wastewater management
- F General waste recycling and management
- G Hazardous waste management
- H Efficient use of material
- I Compliance with relevant environmental laws and regulations

Social

- J Employment
- K Occupational health and safety
- L Development and training
- M Diversity and equal opportunities
- N Labour standard
- O Customer health and safety
- P Customer privacy
- Q Product quality assurance
- R Product marketing and labelling
- S Sustainable procurement/supply chain
- T Anti-corruption
- U Community Involvement
- V Compliance with relevant social laws and regulations

Sustainability Governance

- W Sustainable development framework
- X Sustainability targets

7. STRENGTHEN OUR SUSTAINABLE VALUE CHAIN

PuraPharm dedicates itself to humanity's quest for longer, healthier, happier lives. To achieve this mission, PuraPharm is devoted to becoming the most admired Herbal Medicine Company by leading the modernisation of traditional medicine through innovation and pioneering research, while offering effective, safe and reliable products. Since the founding in 1998, the Group keeps developing and providing premium quality traditional Chinese medicine ("TCM") to people by implementing a whole value-chain management and control.

7.1. Sustainable supply chains

7.1.1. Raw herb selection and management

To secure a stable supply of high-quality herb ingredients, the Group established its own Chinese herb plantation base in Guizhou province, which can harvest over 50 species of herbs. In effort to protect herb species, the Group has actively collaborated with internationally renowned academics to establish National Research Centre of Medicinal Plants and Seed Breed in Guizhou province. In this reporting year, the Group's researchers made fruitful achievements in the research of a rare and precious TCM, Shan Ci Gu（山慈菇). Studies on its source plants, cultivation, phytochemical and biological activities have been conducted and the research findings was published in a prestigious journal named Chinese Medicine and Culture. The research achievements on Shan Ci Gu are an important boost for the conservation of rare TCM resources and resolving the crisis of frequent reduction of medicinal resources. Apart from biodiversity conservation, the Group executes waste management at the fields by collecting and converting the herb residues from the manufacturing process to maintain a circular economy.

7.1.2. Sustainable procurement

In addition to ensuring the quality and stable supply of raw materials, PuraPharm fully recognizes the impact of its procurement activities on the environment, society and the economy and acknowledges its responsibility to manage the impacts. Hence, the Group has incorporated environmental, social and governance considerations into its procurement decisions to enhance the overall sustainability and resilience of its supply chain. The Group has established its Sustainable Procurement Policy to manage environmental and social risk in its supply chain. The Sustainable Procurement Policy is adopted in conjunction with other procurement policies in both group and subsidiary level.

The Group has instituted a procurement guideline for the procurement team to assess the suitability and capability of the potential and existing suppliers. Apart from capability, quality and integrity of the suppliers, the procurement team also considers suppliers' environmental and social performance during the assessment process. The Group requires suppliers to comply with relevant environmental and social laws and regulations. During the product selection process, the Group gives priority to products that are environmentally-friendly and conducive for health and wellness. The qualified suppliers after comprehensive evaluations are registered in the approved suppliers and contractors list. The suppliers' ESG performance are reviewed annually to ensure compliance and continuous improvement. To ensure continuous improvement in sustainable procurement, the procurement processes are reviewed annually. Meanwhile, the Group is responsible for communicating sustainable procurement policies with all relevant stakeholders, providing training and guidance for employees and suppliers respectively.

The Group is committed to:

Responsible and ethical sourcing

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

Integrating sustainability into new supplier selection

Preference would be given to suppliers who:

- demonstrate a commitment to **sustainable development**;
- comply with all applicable **ESG related laws and regulations**;
- have in place a **sustainability policy** and their **own supplier code of conduct / sustainable procurement policy**; and
- adopt **internationally-recognized ESG management system(s)** such as **ISO 14001 Environmental Management System**, **OHSAS 18001 Health and Safety Management System** and other equivalent management systems.

Number of suppliers by geographical region

Geographical region	Number of suppliers
China	144
Hong Kong	28
Others	3

7.1.3. Anti-corruption policy

The Group also places high regard on suppliers' integrity and ethical behaviour to maintain a high standard of business ethics. To embody our commitment to ethical business, the Group has distributed the Declaration of Company Code of Conduct to its suppliers during the reporting period. The declaration stated that staff members were prohibited from soliciting or accepting any illegal advantage from any entities. The Group encourages suppliers, employees and other stakeholders to report any suspicious misconduct directly and anonymously through the whistle-blowing channel. Internal Audit Department is responsible for the corruption and bribery investigation. Where any staff member is confirmed of breaching the regulation or having committed corruption or other criminal offences, the Group reports the cases to the authority where the offence took place. Prevention of Corruption clauses has been included in the Group's Employee Handbook to regulate and remind employees to avoid situations that may lead to, or involve, a conflict or potential conflict of interest. To raise the awareness of employees, annual training in anti-corruption is provided for employees, including Board members and directors, in collaboration with the Independent Commission Against Corruption ("ICAC").

During the reporting period, there was no violation of corruption in any form. The Group complied with all local relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

7.2. Sustainable products

PuraPharm strives to deliver professional, high-quality, safe and eco-friendly herbal products. By taking nearly every step of the process under our own control, PuraPharm has virtually built a whole supply-chain of TCM from the place of the origin to the retail counter.

7.2.1. Quality assurance

As a trusted brand with wide range of TCM, PuraPharm considers quality control as one of the key factors contributing to our success. Therefore, the Group makes every effort to implement stringent quality control measures to ensure the highest standards of product quality.

The Group implements strict quality control systems and standard operating procedures in compliant with the Good Manufacturing Practise ("GMP") standards of the PRC's National Medical Products Administration ("NMPA"), Australia's Therapeutic Goods Administration ("TGA"), and the United States Pharmacopeia Convention ("USP"). All batches of products go through multiple tests before packaging. Our quality control team conducts product safety tests in PuraPharm's in-house testing laboratory to ensure our products meet international standards. The testing laboratory is certified by the China National Accreditation Service for Conformity Assessment (CNAS) in accordance with the ISO 17025:2005 Testing and Calibration Laboratories. To guarantee product reliability and safety, PuraPharm products are tested against heavy metal, toxic elements, microbe and pesticide residue level with the latest testing technologies and equipment such as DNA fingerprinting in plants, Fourier Transform Infrared Spectroscopy (FTIR) and Ultra-High-Performance Liquid Chromatography (UPLC), before the product release.

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

7.2.2.Product labelling and reliability

PuraPharm takes product labelling and marketing seriously. They help our products stand out in the market, and more importantly, provides accurate information to consumers. Therefore, the Group frequently inspects product labels to prevent any false or misleading information and complies with applicable laws and regulations such as the Trade Descriptions Ordinance. In compliance with Chinese Medicines Regulation, the information of the medicine (e.g., medication instructions, manufacturing date, expiry date and ingredients) is clearly labelled on the product packages.

7.2.3.Product recall & complaint handling procedures

Customer feedback is vital for the Group to understand customer's expectations and facilitate continual improvement. The Group has established various communication channels to collect their opinion on our products and services, and a standardised complaint handling procedure on handling customer complaints and provide for the contingency for any adverse reaction from patient to our products. In case of complaint received, the relevant department(s) would conduct investigations and take care of customer's needs. In order to handle possible contingencies, our system is designed to recall promptly and effectively from the market those products which may be suspected to be defective according to the Standard Operation Procedure of Product Recall.

With a stringent quality assurance process, the Group was not aware of any significant products or service-related complaints or did not initiate product recall for safety and health reasons in this reporting period.

7.2.4.Customer privacy and data protection

As a responsible corporate, the Group regards customer privacy protection as an important task and an opportunity to build trust. Therefore, the Group strives to protect customer and clinic patients' confidential information. Our internal guidelines set out the standard procedures when collecting and handling customers' personal information to avoid data breaches . All staff are required to comply with all relevant provisions of the Personal Data (Privacy) Ordinance and observe six Data Protection Principles under the Ordinance in the collection, use, disclosure and retention of business-related clients' data.

7.2.5.Safeguard intellectual property rights

PuraPharm is committed to safeguarding the intellectual property rights and the confidentiality of resources for our business development. The Group applies for and obtains patents to protect its unique manufacturing technologies, prescriptions and innovations. In terms of brand protection, the Group has registered various trademarks such as Oncozac® and PuraGold® to prevent abuse of product or brand names. In addition to patent and trademark laws, employees play a key role in safeguarding PuraPharm's intellectual properties. All product development staff is required to sign a "Non-disclosure Agreement" to keep all sensitive information confidential.

8. PROTECTING OUR PLANET

8.1. Climate change

Recognising the significance of climate change, PuraPharm has identified climate physical risk as one of the operational risks in the risk assessment process. The Group is committed to managing climate change risks across its operations and developing strategies to mitigate the impact of climate change, to adapt its operations to climate change and to increase its resilience to climate change.

Aligning with the carbon neutrality targets of the PRC and Hong Kong, the Group has implemented a group-wide climate change policy to outline its commitment to managing climate impacts across its operations. The policy sets out a systematic, disciplined process for identifying, assessing and managing the Group's climate-related risks for sustainable business development.

The primary source of PuraPharm's emission is energy indirect emissions (Scope 2) arising from electricity consumption. The Group uses electricity to operate our manufacturing equipment and lighting fixtures in our office, factories and clinics. Reflecting the need to protect the planet for present and future generations, the Group endeavours to consume fewer energy and to promote environmental responsibility. The Group has established targets to reduce our electricity consumption and scope 2 greenhouse gas emissions.

GHG EMISSION TARGETS

Reduce the total GHG emissions intensity for 2030 by 20%

compared to the intensity for 2020

ENERGY USE EFFICIENCY TARGETS

Reduce the energy intensity for 2030 by 20% compared to the intensity for 2020

PuraPharm aims to make our workplaces more energy efficient and sustainable, and to adopt green practices and achieve a greener workplace, the Group has implemented several mitigating measures.

CLIMATE CHANGE MITIGATION MEASURES

Factories

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

Office

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

In addition to the above measures, the group plans to reduce greenhouse gas emissions by installing solar panels in future years.

Energy Consumption (Note 1)

	Unit	2021	2020
Total Electricity Consumption	MWh	10,134	10,099
Total Natural Gas Consumption	m^3	1,630,632	1,734,584
Total Coal Consumption	tonnes	34	20
Total Energy Consumption	GJ	100,817	105,035
Total Energy Intensity	GJ / million revenue	152.85	174.53

Note 1: As the implementation of energy efficiency initiatives in 2021, the total energy consumption and intensity were lower than the last reporting period.

Greenhouse gas (GHG) emissions (Note 1, 2)

	Unit	2021	2020
Direct GHG emissions (Scope 1)	tons of CO_2 equivalent (tCO_2e)	3,682	3,843
Indirect GHG emissions (Scope 2)	tCO_2e	8,347	8,365
Total GHG	tCO_2e	12,029	12,208
Total GHG emissions intensity	tCO_2e /million revenue	18.24	20.29

Note 1: Calculation standards and methodologies for carbon emissions: Carbon emissions are calculated using "Exchange's guidance materials on ESG - Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEX. The sources of published emission factors for the disclosure of carbon emissions are:

- Sustainability reports of the local utility companies (Hong Kong Electric and CLP)
- "Exchange's guidance materials on ESG - Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEX
- Greenhouse Gas Protocol's "GHG Protocol Tool For Energy Consumption in China"

Note 2: As the implementation of GHG mitigation measures in 2021, the GHG emissions was lower than the last reporting period.

8.2. Water & wastewater management

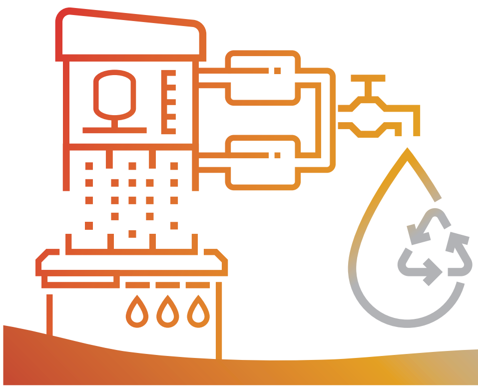
The Group endeavours to minimize water consumption and consume water responsibly throughout our operations. The water consumption of the Group was mainly contributed by the product manufacturing, equipment cooling and daily cleaning at factories and offices. The Group has developed its water-related targets . Although the Group has no difficulties in sourcing water, the Group endeavours to minimise the water pollution and enhance the efficiency through the following actions:

WATER CONSUMPTION TARGETS

Reduce the water consumption intensity for 2030 by 20%  compared to the intensity for 2020

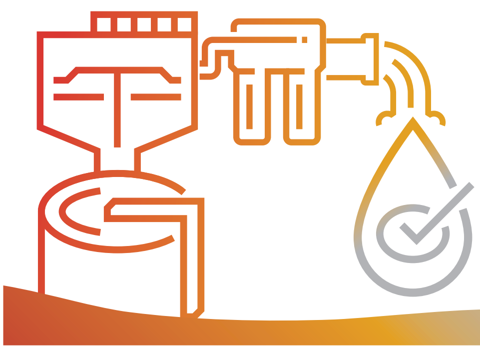
WATER EFFICIENCY ACTIONS

Water Consumption



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

Wastewater management



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

Water consumption

	Unit	2021	2020
Total water consumed	m^3	180,204	166,277
Total water intensity	m^3 / million revenue	273.21	276.30

8.3. Waste management

As a Traditional Chinese Medicine manufacturer and clinical service provider, the Group generates hazardous and non-hazardous waste from the manufacturing process and acupuncture services, such as acupuncture needles used in clinics and chemicals utilized in testing laboratories. Thus, it is pertinent for us to monitor our waste generation and play our part in reducing our waste footprint. To minimise the potential impacts of the hazardous waste to the environment, the Group has set our waste reduction targets which is listed below. The Group has also stipulated hazardous waste handling guidelines. Employees are responsible for the proper separation and storage of hazardous waste before the arrival of the licensed waste collector. Additionally, the Group has implemented the following initiatives to reduce disposal of non-hazardous waste:

WASTE REDUCTION TARGETS

Reduce the non-hazardous waste intensity for 2030 by

20%

compared to the intensity for 2020

Reduce the hazardous waste intensity for 2030 by

20%

compared to the intensity for 2020

Waste management initiatives

The Group actively participates in the Plastic Bottles Collection Scheme of designated recyclers. In the reporting year, **13,877** plastic bottles, a total of **791kg**, were recycled.

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

The Group's manufacturing plants is expected to produce **12,000 tons** of wet herb residue in 2022. In order to properly dispose of herb residue waste and increase its added value, the group will use advanced technology to transform herb residue into **organic fertilizers**, which will be used for the planting of TCM in our plantation base.

Waste management (Note 1)

	Unit	2021	2020
Non-hazardous			
Herbal residues	tonne	3,062	3,554
General refuse	tonne	77	137
Packaging materials	tonne	270	325
Recycled waste	tonne	16	20
Non-hazardous waste intensity (Note 2)	tonne / million revenue	5.19	6.13
Hazardous waste (Note 2)			
Acupuncture waste	kg	114	59
Hazardous liquid waste	L	6,061	3,779
Hazardous solid waste	tonne	75	1
Hazardous waste intensity	L / million revenue	9.19	6.28

Note 1: Non-hazardous waste intensity covers herbal residues and general refuse only.

Note 2: As more clinics in operation in 2021 than in 2020 and the production of the products of 2021 was relatively higher than 2020, the hazardous solid waste amount was higher than the last reporting period.

9. BUILDING OUR TALENTED TEAM

PuraPharm regards its human resources as a cornerstone of its most valuable assets. As a result, the Group is dedicated to establishing a professional and harmonious team while also safeguarding, supporting, and developing the team.

9.1. Attracting and retaining talents

In support of a harmonious workplace, the Group's employment policy is developed under the principles of integrity, equality and fairness. To providing a fair and safe work environment with equal opportunities, candidates are assessed by their experience, capability and qualification, regardless of their gender, age, religion or other factors that are not related to their suitability to the job.

In addition to discrimination and harassment, the Group strictly abide by relevant labour laws and regulations and prohibit the employment of child labour and forced labour. The Human Resources Department verifies the candidates' identity and working permit to prevent child labour and forced labour during the recruitment process. During the reporting year, there were no reported cases of non-compliance with the labour regulations of Hong Kong.

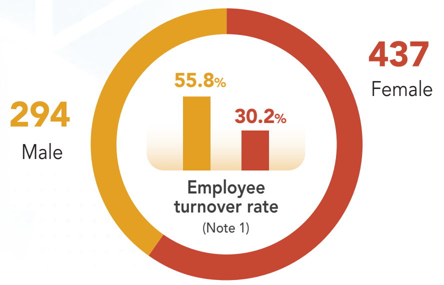
In endeavour to encourage employees' productivity and loyalty, employees are rewarded with competitive remuneration packages as well as attractive fringe benefits which include special leaves, medical insurance and Employee Discount Programs to its employees , and review the welfare policies and packages regularly. The Group also advocates work-life balance and inclusive culture. In this regard, the Group arranges regular staff activities to strengthen the cross-team communication and employees' sense of belonging.

During the reporting period, the Group had a total of 731 employees across Hong Kong and the PRC. The breakdown of the workforce by different categories were shown as below:

EMPLOYMENT BREAKDOWN

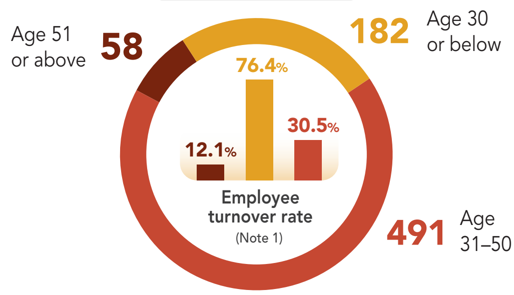
Breakdown by Gender

Number of employees



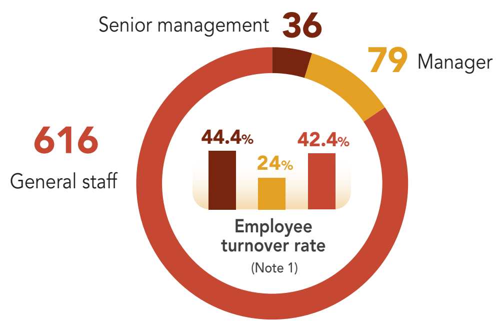
Breakdown by Age Group

Number of employees



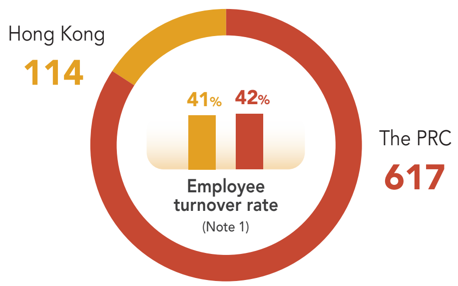
Breakdown by Employee Category

Number of employees



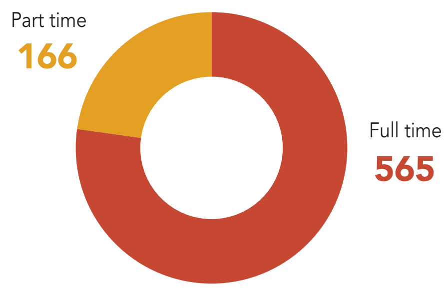
Breakdown by Geographical Location

Number of employees



Breakdown by Employment Type

Number of employees



Note 1: The calculation of turnover rate is shown as below:
Turnover rate = L(x) / E(x) * 100%
L(x) = Employees leaving employment during the reporting period
E(x) = Average number of employees during the reporting period

9.2. Protecting our staff

The Group is committed to creating a work environment that enables our employees to be at their physical and mental best. The Group has maintained a safe working environment and have implemented a number of safety policies to minimise potential occupational hazards. The Group provides education and training to employees to be able to put fundamental safety initiatives into practice, promote the safety culture, and introduce new safety technologies. In terms of physical protection, the Group requires the frontline employees to wear personal protective equipment at work. The execution of safety inspections is conducted by our Health and Safety Team to ensure all employees are working safely and are supplied with appropriate personal protection equipment.

During the reporting period, the Group complied with all applicable local laws and regulations relating to workplace hazard prevention and occupational health and safety. As a result of these stringent safety practices, the Group has achieved and maintained zero work-related fatality in each of the past three years including the Reporting Year and 107 lost days due to work injury in the Reporting Year was record.


Safety training


Employee body check

COVID-19 measures

COVID-19 created a raft of challenges for our people and business. Despite these, the Group upheld our commitment to supporting our staff, our customers and our community. In order to control the spread of virus and prevent infection, the Group has implemented a number of measures as below:

- Provided surgical masks and other pandemic necessities to its staff;
- Arranged mass procurement of reliable pandemic necessities for its staff and their families;
- Implemented flexible work arrangements including home office and flexible working hours policies according to the pandemic severity of the working locations;
- Increase disinfection and cleaning measures in public areas and office areas;
- Donate epidemic prevention supplies (such as masks) to communities;
- Carry out body temperature detection every day, and check in and out with barcode;
- Update the epidemic situation from time to time, take relevant prevention and control measures and safety warning publicity;
- Establish and improve dynamic staff schedule ledger;
- More than 98% vaccination (and obtain the vaccination logo provided by the government)

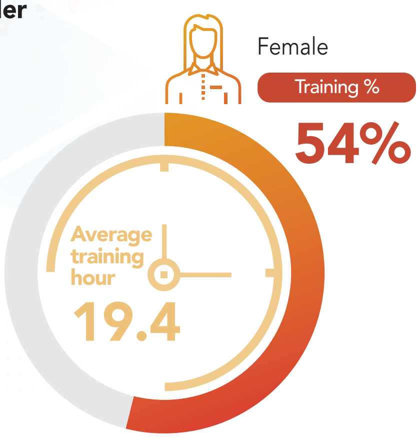
9.3. Nurturing our people

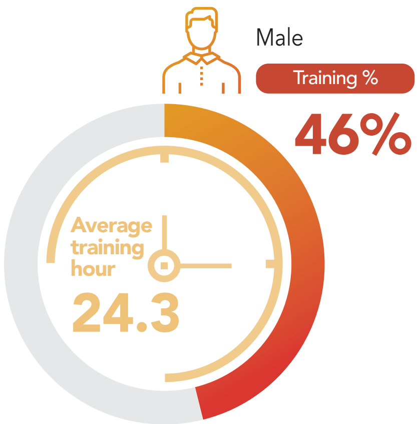
The Group commits to deploying staff with sufficient skills, knowledge, professional qualifications, experience and soundness of judgement for the responsible discharge of their duties. In view of this, the Group has developed a training policy and offered specialised training programmes to its team based on their job nature and personal interest. For instance, the Group offers GMP trainings to quality assurance and production team, and provide product training to sales and marketing team. In addition to internal training, the Group offers our employees subsidies allowance for external training to pursue personal development or job enrichment. Human Resources Department conducts annual performance assessments on every employee and review training programmes every year.

During the reporting period, the Group provided a total of 15,418 training hours to its employees and the detail of the trainings is shown as below:

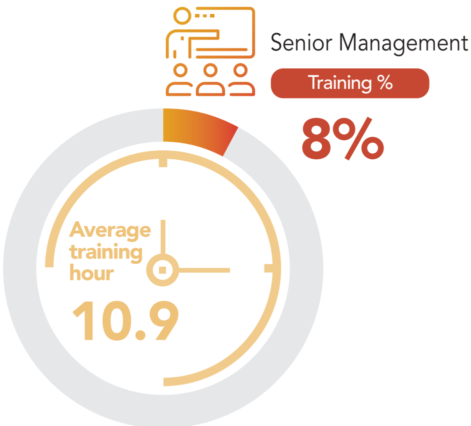
TRAINING AND DEVELOPMENT

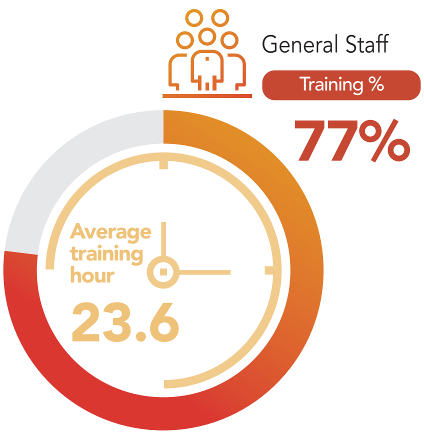
By Gender





By Employment Type





10. CARING OUR COMMUNITY

PuraPharm is committed to promoting longer, healthier and happier lives for all. Our Community Investment Policy helps us deliver on our community goal. PuraPharm strives to create positive impacts in the following areas:

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

Despite unprecedent global circumstances, PuraPharm relentlessly contributes to the community. The Group has donated HK$1.29 million to the above areas in the reporting year. The highlight of our community initiatives/activities in the reporting year includes:

TWGHs Flag Day Selling

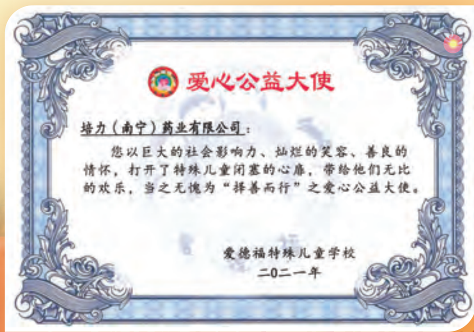
PuraPharm has been continuously supporting TWGH and its work in medical services and education. In addition to donation, the Group also encourages Purapharm employees and clients to support TWGH by having colleagues participating the flag selling on that day and placing donation box in Nong's clinics. Our dedication in promoting public health and wellness has received Certificate of Appreciation in TWGHs Flag Day 2021.

Provide free Chinese medical consultation services for the elderly and poor area

PuraPharm provided free medical consultation services to the public with the aim of promoting Chinese medicine. The Group also donated CCMG to clinics to improve access to affordable medication.

Public welfare activities of caring for Special children

In order to care for children with special needs, the Group visited Edford（愛德福）Rehabilitation School for Special Children and donated rice, flour, oil, milk and other daily necessities for the children.


爱心公益大使

培力（南宁）药业有限公司：

您以巨大的社会影响力、灿烂的笑容、善良的情怀，打开了特殊儿童闭塞的心扉，带给他们无比的欢乐，当之无愧为“择善而行”之爱心公益大使。

爱德福特殊儿童学校
二0二一年

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

PuraPharm has always attached great importance to caring for and nurturing the next generation. Therefore, the Group participated in the CDIA- Youth Work Explorer Program in the reporting year with the aim of helping the deprived youths to build their employ-abilities. The Group has offered four youths work placement opportunities in our office and clinic.

Donation for disaster relief in Henan Province

In July 2021, a heavy rainstorm hit Henan Province, causing heavy casualties and property losses. In response to the call of the Sichuan Committee of the Chinese People's Political Consultative Conference, the Group donated HK $10,000 to the disaster-stricken area of Henan province to help them tide over difficulties.

11. HARVESTING ACHIEVEMENT

In testament to the collective efforts of the employees and support of the business partners, PuraPharm has achieved numerous recognitions and awards during the reporting years.

Name	Issuer
InnoESG Prize	Society Next Foundation
PuraPharm has received the InnoESG Prize 2021 – ESG Care Prize for the Group's outstanding performance in corporate social responsibility, environmental protection, and efforts in the creation of a more sustainable society. 	The InnoESG Prize are co-granted by SocietyNext Foundation, UNESCO HK Association Glocal Peace Centre and Rotary Action Group for Peace to encourage businesses to innovatively reform their core business through adapting or incorporating Sustainability/ESG aspects. The ESG Care Label recognizes companies that are quickly and effectively working towards a sustainable future.
Certificate of registration of scientific and technological achievements	Guangxi Institute of Science and Technology Information
National under-forest Economic demonstration base	National Forestry and Grassland Administration
Guizhou provincial forest economy leading enterprises	Guizhou Forestry Bureau
The first prize of Science and Technology Progress Award of China Ethnic Medicine Association in 2021	Chinese Ethnic Medicine Association
Excellent Member Enterprise	Danzhai County Federation of Industry and Commerce

12. LOOKING AHEAD

With the mission to dedicating to humanity's quest for longer, healthier, happier lives, PuraPharm will continue to provide quality products and services to the community through innovation and modernization of Herbal Medicine. Meanwhile, PuraPharm will continue to step up efforts in attaining its environmental targets and addressing decarbonization. The Group looks forward to shaping a healthy and sustainable environment and bringing longer, healthier and happier lives for all.

13. ESG INDEX

Aspect	KPI	Description	Statement/Section	Page No.
SUBJECT AREA (A) ENVIRONMENT				
A1: EMISSIONS				
A1	*General disclosure*	Information on: (a) the policies; and (b) compliance.	(a) 8 Protecting our planet (b) The Group was not aware any material non-compliance against relevant laws and regulation such as Air Pollution Control Ordinance of Hong Kong and Environmental Protection Law of the PRC during the reporting period.	59
	A1.1	The types of emissions and respective emissions data.	8.1 Climate change As the primary energy source of the Group's operation is purchased electricity, air pollutant emission such as NOx and SOx is not material to the Group.	59, 61
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	8.1 Climate change	61
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	8.3 Waste management	64
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	8.3 Waste management	64
	A1.5	Description of emissions target(s) set and steps taken to achieve them.	8.1 Climate change	59-60
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	8.3 Waste management	63-64

Aspect	KPI	Description	Statement/Section	Page No.
A2: USE OF RESOURCES				
A2	*General disclosure*	Policies	8 Protecting our planet	59, 62
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	8.1 Climate change	61
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	8.2 Water & wastewater management	63
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	8.1 Climate change	60
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	8.2 Water & wastewater management	62
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	8.3 Waste management	64
A3: THE ENVIRONMENT AND NATURAL RESOURCES				
A3	*General disclosure*	Policies	8 Protecting our planet	59, 62
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	8 Protecting our planet	59, 62
A4: CLIMATE CHANGE				
A4	*General disclosure*	Policies	8.1 Climate change	59
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	8.1 Climate change	59-60

Aspect	KPI	Description	Statement/Section	Page No.
SUBJECT AREA (B) SOCIAL				
B1: EMPLOYMENT				
B1	*General disclosure*	Information on: (a) the policies; and (b) compliance.	(a) 9 Building our talented team (b) The Group was not aware any material non-compliance against relevant laws and regulation such as Employment Ordinance of Hong Kong and Labour Law of the PRC during the reporting period.	65
	B1.1	Total workforce by gender, employment type (for example, full- or parttime), age group and geographical region.	9.1 Attracting and retaining talents	66
	B1.2	Employee turnover rate by gender, age group and geographical region.	9.1 Attracting and retaining talents	66
B2: HEALTH AND SAFETY				
B2	*General disclosure*	Information on: (a) the policies; and (b) compliance.	(a) 9.2 Protecting our staff (b) The Group was not aware any material non-compliance against relevant laws and regulation such as Occupational Safety and Health of Hong Kong and Production Safety Law of the PRC during the reporting period.	67
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	9.2 Protecting our staff	67
	B2.2	Lost days due to work injury.		67
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	9.2 Protecting our staff	67-69
B3: DEVELOPMENT AND TRAINING				
B3	*General disclosure*	Policies	9.3 Nurturing our people	69
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	9.3 Nurturing our people	70
	B3.2	The average training hours completed per employee by gender and employee category.	9.3 Nurturing our people	70

Aspect	KPI	Description	Statement/Section	Page No.
B4: LABOUR STANDARDS				
B4	*General disclosure*	Information on: (a) the policies; and (b) compliance.	(a) 9 Building our talented team (b) The Group was not aware any material non-compliance against relevant laws and regulation such as Employment Ordinance of Hong Kong and Labour Law of the PRC during the reporting period.	65
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	9.1 Attracting and retaining talents	65
	B4.2	Description of steps taken to eliminate such practices when discovered.	9.1 Attracting and retaining talents	65
B5: SUPPLY CHAIN MANAGEMENT				
B5	*General disclosure*	Policies	7.1 Sustainable supply chains	55
	B5.1	Number of suppliers by geographical region.	7.1 Sustainable supply chains	57
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	7.1 Sustainable supply chains	55
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	7.1 Sustainable supply chains	55-56
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	7.1 Sustainable supply chains	55-56

Aspect	KPI	Description	Statement/Section	Page No.
B6: PRODUCT RESPONSIBILITY				
B6	*General disclosure*	Information on: (a) the policies; and (b) compliance.	(a) 7.2 Sustainable products (b) The Group was not aware any material non-compliance against relevant laws and regulation such as Chinese Medicine Ordinance of Hong Kong and Advertising Law of the PRC during the reporting period.	57
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	7.2 Sustainable products	58
	B6.2	Number of products and service related complaints received and how they are dealt with.	7.2 Sustainable products	58
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	7.2 Sustainable products	59
	B6.4	Description of quality assurance process and recall procedures.	7.2 Sustainable products	58
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	7.2 Sustainable products	59

Aspect	KPI	Description	Statement/Section	Page No.
B7: ANTI-CORRUPTION				
B7	*General disclosure*	Information on: (a) the policies; and (b) compliance.	(a) 7.1 Sustainable supply chains (b) The Group was not aware any material non-compliance against relevant laws and regulation such as Prevention of Bribery Ordinance of Hong Kong and Criminal Law of the PRC during the reporting period.	57
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	7.1 Sustainable supply chains	57
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	7.1 Sustainable supply chains	57
	B7.3	Description of anti-corruption training provided to directors and staff.	7.1 Sustainable supply chains	57
B8: COMMUNITY INVESTMENT				
B8	*General disclosure*	Policies	10 Caring our community	71
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	10 Caring our community	71-74
	B8.2	Resources contributed (e.g. money or time) to the focus area.	10 Caring our community	71

Corporate Governance Report

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2021.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). During the year ended 31 December 2021 (the "Review Period"), save as disclosed below, the Company has complied with all applicable code provisions set out in the Code. The references made to the Code in this report have been updated to the latest amendments to the Listing Rules effective on 1 January 2022.

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

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

A. THE BOARD OF DIRECTORS

1. Responsibilities

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

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

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and the Company for the year ended 31 December 2021.

2. Delegation of Management Function

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

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

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

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

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

Throughout the year ended 31 December 2021, in accordance with Code provision D.1.2, all Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Pursuant to code provision E.1.5 of the Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2021 is set out below:

Remuneration band (HK$)	No. of individual
Nil–1,000,000	2
1,000,001–1,500,000	1
1,500,001–2,000,000	0
2,000,001–2,500,000	0
2,500,001–3,000,000	1

Details of the remuneration of each Director for the year ended 31 December 2021 are set out in note 8 to the consolidated financial statements in this annual report.

3. Board Composition

As at 31 December 2021, the Board consisted of eight Directors, including three Executive Directors, two Non-executive Directors and three independent non-executive Directors. Biographies of the Directors are set out on pages 8 to 10 of this annual report.

During the year 31 December 2021, the Board comprised the following Directors:

Executive Directors	Mr. Chan Yu Ling, Abraham *(Chairman and Chief Executive Officer)* Ms. Man Yee Wai, Viola Dr. Norimoto Hisayoshi Dr Tsoi Kam Biu, Alvin *(retired as an executive Director on 28 May 2021)*
Non-executive Directors	Mr. Chow, Stanley Mr. Cheong Shin Keong *(re-designated from executive Director to non-executive Director on 28 June 2021 and retired on 31 March 2022)* Mr. Chan Kin Man, Eddie *(retired as a non-executive Director on 28 May 2021)*
Independent non-executive Directors	Mr. Ho Kwok Wah, George Dr. Leung Lim Kin, Simon Prof. Tsui Lap Chee Dr Chan Kin Keung, Eugene *(retired as a non-executive Director on 28 May 2021)*

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

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

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

4. Appointment and Re-election of Directors

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

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

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

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

5. Induction and Continuing Development for Directors

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

Pursuant with code provision C.1.4 of the Code, the Directors were are continually provided with information related to the developments in the legal and regulatory regime and the business and market environments to facilitate the execution of their responsibilities during the year ended 31 December 2021. Continuing briefing and professional development for Directors were arranged by the Group and its legal advisers.

For the year ended 31 December 2021, each Director has attended training sessions arranged by the Group's legal advisers relating to corporate governance and continuing obligations of listed companies and its Directors.

6. Directors Liability Insurance

The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2021, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing their duties. The Company estimates that in the reasonably foreseeable future, there is little risk that there would be any event for which any Director shall take responsibility. Notwithstanding, the Company has arranged for appropriate directors and officers liability insurance in respect of legal action against the Directors.

7. Board Meetings and General Meetings

The Board discusses the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. The attendance records of each Director at the Board meetings and the annual general meeting held on 28 May 2021 (the "AGM") (whether in person or by means of electronic communication) held during the year ended 31 December 2021 are set out below:

Name of Director	Board meeting	AGM
Mr. Chan Yu Ling, Abraham	6/6	1/1
Dr. Tsoi Kam Biu, Alvin*	1/2	1/1
Ms. Man Yee Wai, Viola	6/6	1/1
Dr. Norimoto Hisayoshi	6/6	1/1
Mr. Chow, Stanley	6/6	1/1
Mr. Cheong Shin Keong	6/6	1/1
Mr. Chan Kin Man, Eddie*	1/2	0/1
Mr. Ho Kwok Wah, George	6/6	1/1
Dr. Leung Lim Kin, Simon	6/6	1/1
Prof. Tsui Lap Chee	6/6	1/1
Dr. Chan Kin Keung, Eugene*	1/2	1/1

* Dr. Tsoi Kam Biu, Alvin, Mr. Chan Kin Man, Eddie and Dr. Chan Kin Keung, Eugene retired on 28 May 2021. Up to the date of their retirement two board meeting was held.

Practices and conduct of meetings

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

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

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

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

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

B. BOARD COMMITTEES

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

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

1. Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with the Code. The Remuneration Committee comprises three members, the majority of whom are independent non-executive Directors:

Dr. Chan Kin Keung, Eugene *(Chairman, retired on 28 May 2021)*
Dr. Leung Lim Kin, Simon *(Chairman since 28 May 2021, Independent Non-executive Director)*
Mr. Chow, Stanley *(Non-executive Director, appointed on 28 May 2021)*
Prof. Tsui Lap Chee *(Independent Non-executive Director)*
Dr. Tsoi Kam Biu, Alvin *(retired on 28 May 2021)*

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

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

Name of Director	Meeting attended/ Total
Dr. Chan Kin Keung, Eugene *(Chairman, retired on 28 May 2021)*	1/1
Dr. Leung Lim Kin, Simon *(Chairman since 28 May 2021)*	1/1
Mr. Chow, Stanley *(appointed on 28 May 2021)*	1/1
Prof. Tsui Lap Chee	2/2
Dr. Tsoi Kam Biu, Alvin *(retired on 28 May 2021)*	1/1

2. Audit Committee

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

Mr. Ho Kwok Wah, George *(Chairman)*
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee *(appointed on 28 May 2021)*
Dr Chan Kin Keung, Engene *(Chairman, retired on 28 May 2021)*

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

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

The Audit Committee has, among others, considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management. The Audit Committee has reviewed the interim results for the six months ended 30 June 2021 and the annual financial results for the year ended 31 December 2021 and considers that the annual results are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made. The Audit Committee had also reviewed the effectiveness and performance of the Group's risk management and internal control systems and internal audit plan.

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

Name of Director	Meeting attended/ Total
Mr. Ho Kwok Wah, George *(Chairman)*	2/2
Dr. Leung Lim Kin, Simon	2/2
Prof. Tsui Lap Chee *(appointed on 28 May 2021)*	1/1
Dr. Chan Kin Keung, Eugene *(Chairman, retired on 28 May 2021)*	1/1

3. Nomination Committee

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

Mr. Chan Yu Ling, Abraham *(Chairman, Executive Director)*
Mr. Ho Kwok Wah, George *(Independent Non-executive Director, appointed on 28 May 2021)*
Prof. Tsui Lap Chee *(Independent Non-executive Director)*
Dr. Leung Lim Kin, Simon *(ceased to be a member on 28 May 2021)*

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

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

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

Name of Director	Meeting attended/Total
Mr. Chan Yu Ling, Abraham *(Chairman)*	2/2
Mr. Ho Kwok Wah, George *(appointed as a member on 28 May 2021)*	1/1
Prof. Tsui Lap Chee	2/2
Dr. Chan Kin Keung, Eugene *(Chairman, retired on 28 May 2021)*	1/1
Dr. Leung Lim Kin *(ceased to be a member on 28 May, 2021)*	1/1

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

Nomination Policy

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

- review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- assess the independence of Independent Non-executive Directors having regard to the requirements under the Listing Rules; and

- make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors in particular the Chairman and Chief Executive Officer of the Company

Nomination Criteria

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

- the candidate's character and integrity;

- the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy that are relevant to the Company's business and corporate strategy;

- any measurable objectives adopted for achieving diversity on the Board;

- for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;

- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

- willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and

- such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

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

Appointment of New and Replacement Directors

i. If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable Director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.

ii. Upon compilation and interview of the list of potential candidates, the Nomination Committee will shortlist candidates for consideration by the Nomination Committee and/or the Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable Director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

i. Where a retiring Director, being eligible, offers himself for re-election, the Nomination Committee and/or the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

ii. Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the company secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

Board diversity policy

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

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

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

4. Scientific Advisory Committee

The Company has established the Scientific Advisory Committee with written terms of reference in June 2015. As at 31 December 2021, none of the members of Scientific Advisory Committee are Director of the Company:

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

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

During the Review Period, the Scientific Advisory Committee held no meeting because of the global outbreak of the COVID-19 pandemic. Instead, the members of the Scientific Advisory Committee performed their duties set out above by email and other electronic means.

5. Environmental, Social and Governance Committee

The Company has established the Environmental, Social and Governance Committee in August 2021. The Environmental, Social and Governance Committee is chaired by Dr. Norimoto Hisayoshi, an executive Director, with five other members who are not Director of the Company.

Dr. Norimoto Hisayoshi *(Chairman)*
Ms. Hung Pui
Mr. Cheung Kwun Kiu
Ms. Ma Hang Woon
Mr. Kwong Kar Fai
Ms. Zhou Jian

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

During the Review Period, no meeting was held by the Environmental, Social and Governance Committee.

C. Model Code for Securities

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the required standard of dealing as set out in the Model Code during the year ended 31 December 2021 and the Board was of the view that the Model Code has been fully complied with during the year ended 31 December 2021.

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

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

D. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 122 to 127.

For the year ended 31 December 2021, the fees paid/payable to Ernst & Young for the audit service were HK$2,750,000.

Fees paid/payable to Ernst & Young for non-audit services provided to the Group for the year ended 31 December 2021 were HK$650,000. The non-audit services were mainly for reviewing of the Group's interim results.

Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements for the financial year, which give a true and fair view of the financial position of the Company and the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2021, the Directors have selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared disclosure of the financial position of the Group with reasonable accuracy at any time.

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

E. Risk Management and Internal Controls

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

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

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

During the year ended 31 December 2021, the Audit Committee, which was delegated by the Board, has reviewed and evaluated the effectiveness of the risk management and internal control system of the Group. The review has covered the financial reporting process and risk management aspects of the Group. Such review shall be conducted annually. Upon the recommendation of the Audit Committee, the Board believes that the existing risk management and internal control system is adequate and effective.

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

F. Investor Relations

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

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

To promote effective communication, the Company maintains a website at www.purapharm.com, where information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The Company has established a shareholders' communication policy since June 2015 and will review it on a regular basis to ensure its effectiveness.

On 28 May 2021, shareholders of the Company have passed a special resolution at the AGM to amend the Articles of the Company for allowing the Company to send or supply corporate communications to shareholders by simply making them available at the Company's website. A copy of the latest version of the amended and restated memorandum and articles is posted on the websites of the Company and the Stock Exchange.

G. Shareholder Rights

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

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

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

Address:	Unit 201–207, 2/F, Wireless Centre, Phase One, Hong Kong Science Park, Tai Po, New Territories, Hong Kong.
Email:	info@purapharm.com
Tel:	(852) 2840 1840
Fax:	(852) 2840 0778

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

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

H. Company Secretary

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

I. STAFF DIVERSITY

The Group had a workforce of 675 employees as of 31 December 2021. Among them, approximately 61% of the workforce (including senior management) were female, and 50% of the Group's senior management positions (excluding Directors) were held by female. The Group considers the total diversity (including gender diversity) of the Group is balanced as a whole and intends to maintain a similar level of gender diversity of the overall workforce, and will continue to promote diversity through training programs, employee networks, equitable hiring and recruitment practices.

Risk Management Report


PuraPharm
NONG'S 農本方
六味地黃丸
濃縮中藥膠囊
Concentrated Chinese Medicine Capsules
現代化·方便服用的濃縮中藥膠囊
Modernized & Convenient Concentrated Chinese Medicine Capsules
植物膠囊 240粒 • 240 veggie capsules

Risk Management Report

RISK GOVERNANCE

The Board has overall responsibility to the Group's risk management. The following highlights the key risk management measures and enhancements made by the Group during the year ended 31 December 2021:

- Management conducted annual Internal Control Self-Evaluation in 2021. Department heads confirmed that appropriate and effective internal control policies and procedures have been established and complied with.

- Various policies and procedures have been adopted with defined authority for effective segregation of duties, controls and risk management, and they are subjected to regular review.

- Whistleblowing Policy was adopted to facilitate internal reporting of any malpractice and unethical conduct within the Group without fear of reprisal and victimisation.

- Anti-Corruption Management Policy was adopted to set out minimum standards in recognising circumstances which may lead to or give the appearance of involving corruption or unethical business conduct, to help avoid conduct which is clearly prohibited, and to encourage employees in the Group to seek appropriate guidance promptly when needed.

- Continuous Disclosure and Communication Policy was adopted to provide employees with guidelines on reporting and disseminating inside information, maintaining confidentially and complying with dealing restrictions.

- Comprehensive Risk Management Policy, which set out principle of risk management, objectives, risk management structure and workflow of annual risk management, was adopted. The policy aims to enhance the process of risk identification, prioritise identified risks and facilitate management to formulate business strategy and support decision making.

- Escalation and Risk Incident Reporting Policy was adopted to provide a framework for effective communication and action from appropriate stakeholders.

- The Internal Audit Department conducts independent reviews of the adequacy and effectiveness of the Group's internal control systems and reporting the review results regularly to the Board. Its work covers all material controls, including the financial, operational, IT, compliance and risk management controls.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

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

Risk Identifications
Identify the risks that potentially impact the Group's key processes and departments.

Risk Assessment
Assess and rate the identified risks along with the likelihood to occur and impact to our current and growth business.

Risk Control
Assess the effectiveness of current controls over the identified risk.

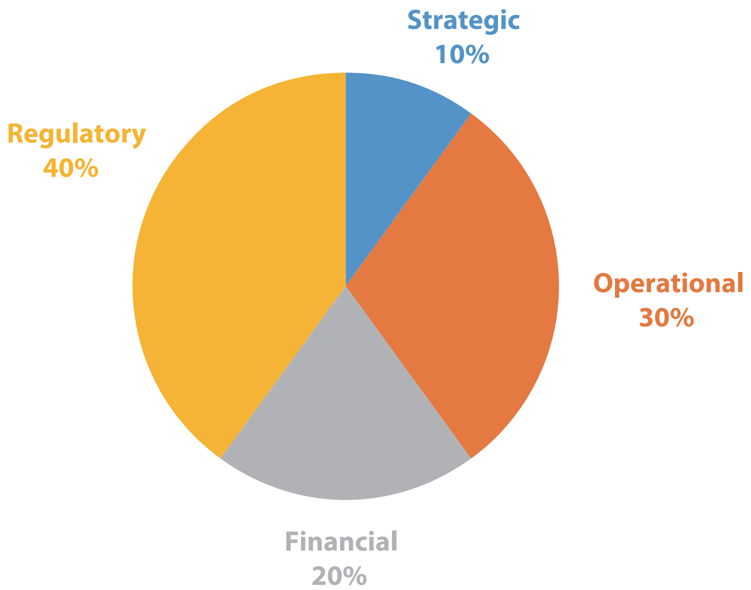
Risk Monitoring
Monitor risk mitigation measures implemented by risk owners.

SIGNIFICANT RISKS

In 2021, the Board conducted an annual Group-wide risk assessment project based on the Group's ERM framework to review identified risks and assess the risks might arise from its businesses. The identified risks are rated by a combination of likelihood and consequences after considering current mitigation measures implemented regarding a risk matrix to get overall ratings. All identified risks are then ranked by the overall rating. The overall risk ratings reflect the required management attention and risk treatment effort. In the Group Risk Report, 4 categories of major risk types were identified and are illustrated in the diagram below.

The Group's Key Risk Exposures:

SIGNIFICANT RISKS



PuraPharm Key Risk Exposures:

- Changes in political, regulations or economic condition impacting the Group, and PRC government may open the CCMG market, inducing more competitors.
- Present or future industry regulations or enforcement may adversely affect our business operations.
- Cost of complying local laws and regulation and unexpected changes in regulatory requirements.
- When the economic recession, market demand and sales of the Group's products decline.

- Highly competitive market creates pressure on the Group's revenue and profitability when the Group cannot operate effectively.
- Loss of senior management or key research and development personnel and unable to identify suitable replacement.
- Unable to maintain inventory in proper level with reasonable cost.

- Loss of revenue/ market share.

- The large-scale and multi-country COVID-19 outbreak has worsen the global economic environments. The Group's sales and operating cash flow will be negatively impacted.
- Losses due to counterparties' failure to meet their settlement obligations.

Details of Key Risks Identified

Throughout the risk assessment process in 2021, the following are the material risks identified and their respective mitigation plan(s):

Category	Risk identified	Mitigation plan(s)
Financial	The large-scale and multi-country COVID-19 outbreak has worsen the global economic environments. The Group's sales and operating cash flow will be negatively impacted.	• Implement stringent cost control and cash flow management. • Minimise or slowdown investment and expansion plan to reserve the cash resources. • Explore the business opportunities for healthcare products and online sales channel to offset the downside impact of the retail channel.
Financial	Losses due to counterparties' failure to meet their settlement obligations.	• With guidelines to control approval of credit limit and credit terms.
Strategic	Loss of revenue/market share.	• Maintain good relationship with customers and deliver quality products timely. • Commit substantial effort in promoting our brand and providing quality products.
Regulatory	Changes in political, regulations or economic condition impacting the Group, and PRC government may open the CCMG market, inducing more competitors.	• Expand our market share by devoting more effort in developing new products and maintaining good relationship with our existing customers. • Designated teams to monitor and handle compliance issues related to production and product licenses. • Coordinate with regulators to minimise impact of changes to the Group.

Category	Risk identified	Mitigation plan(s)
Regulatory	Present or future industry regulations or enforcement may adversely affect our business operations.	• Maintain good relationship and communicate continuously with government departments to obtain information. Thus, the Group can response to the changes in timely fashion. • Get familiar with the national and local laws and regulations as well as any changes.
Regulatory	Cost of complying local laws and regulation and unexpected changes in regulatory requirements.	• Tighten the execution of current regulations, OTC team cooperates with RA team to check against product labels and presentation in advertisement to conform to those regulations. • For changes in regulations, utilise grace period granted to match the new requirements.
Regulatory	When the economic recession, market demand and sales of the Group's products decline.	• Actively focus on economic environment and its impact on medicine's demand and take countermeasures.
Operational	Highly competitive market creates pressure on the Group's revenue and profitability when the Group cannot operate effectively.	• Maintain and provide high-quality products to customers. • Strengthen the promotion of our brand and increase its popularity. • Improve the professional knowledge of our personnel in order to promote with our customers effectively.

Category	Risk identified	Mitigation plan(s)
Operational	Loss of senior management or key research and development personnel and unable to identify suitable replacement.	• Promote the company culture and environment, to strengthen the unity and group cohesion (e.g. regular team bonding activities. • Carry out regular performance reviews for staff and investing in their career growth and career development. • Retain internal talent by supporting their career development and enhancing their job ownership/job satisfaction. • Foster staff's diversified development and their interest in the Purapharm Group. • Setup R&D team in Japan to attract and retain key R&D personnel. • Absorb R&D personnel through company acquisition.
Operational	Unable to maintain inventory in proper level with reasonable cost.	• Sales team provides 4–8 months/6-month rolling sales forecast to SCM on monthly basis to maintain proper inventory level and reduce risk of write off obsolete inventories. • Strategic stockpiling by procuring raw herbs at low price and compare with historical prices/ management expectation. • Procure from large and reliable suppliers to stabilize the quality of raw Chinese herbs.

Report of the Directors

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Management Discussion and Analysis" set out on pages 38 to 47 of this annual report. This discussion forms part of this directors' report.

RESULTS

The Group's profit for the year ended 31 December 2021 and the Group's financial position as at that date are set out in the consolidated financial statements on pages 128 to 232.

COMPLIANCE WITH THE LAWS AND REGULATIONS

During the year ended 31 December 2021 and up to the date of this annual report, the Group in all material aspects has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year ended 31 December 2021 and up to the date of this annual report.

DIVIDEND POLICY

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

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

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

The Board resolved not to recommend the payment of final dividend for the year ended 31 December 2021 to the shareholders of the Company.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK$288.4 million (the "Net Proceeds"). As at 31 December 2021, the Group had utilised approximately HK$282.0 million of the Net Proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	Total approximate amount of Net Proceeds (in HK$ million)	Approximate percentage of Net Proceeds	Approximate amount utilised as at 31 December 2021 (in HK$ million)	Approximate amount utilised during the year (in HK$ million)	Approximate amount unutilised as at 31 December 2021 (in HK$ million)	Expected timeline for intended use
To expand manufacturing facilities and enhance existing production lines	86.5	30%	86.5	—	—	—
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	72.1	—	—	—
To expand distribution network into new target cities in the PRC	57.7	20%	57.7	—	—	—
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	36.9	4.3	6.4	by December 2022
Additional working capital of the Group	28.8	10%	28.8	—	—	—
	288.4	100%	282.0	4.3	6.4	

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

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, and an analysis of the Group's performance using financial key performance indicators is set out on page 234. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2021 are set out in note 29 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

The Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities throughout the year ended 31 December 2021.

PRE-EMPTIVE RIGHTS

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

DISTRIBUTABLE RESERVES

At 31 December 2021, the Company's reserves available for distribution amounted to approximately HK$116,422,000.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2021, the Group made charitable contributions totaling HK$1,492,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, sales to the Group's five largest customers accounted for 26.6% (2020: 20.6%) of the total sales and sales to the largest customer included therein amounted to 7.8% (2020: 5.4%). Purchases from the Group's five largest suppliers accounted for less than 20% of the total purchases for the year ended 31 December 2021 (2020: less than 30%).

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

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

For details of the Group's relationship with customers, suppliers and employees, please refer to the paragraph headed "stakeholder engagement" in the Environmental, Social and Governance Report set out in page 53 of this annual report.

DIRECTORS

The directors of the Company during the year ended 31 December 2021 were:

Chairman and Executive Director:

Mr. Chan Yu Ling, Abraham

Executive Directors:

Ms. Man Yee Wai, Viola
Dr. Norimoto Hisayoshi

Non-executive Directors:

Mr. Chow, Stanley
Mr. Cheong Shin Keong (re-designated from executive Director to non-executive Director on 28 June 2021)

Independent non-executive Directors:

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

In accordance with article 108 of the Company's articles of association, Mr. Chan Yu Ling, Abraham, Mr. Chow, Stanley and Prof. Tsui Lap Chee will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 8 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance, the results of the Group and recommendation from the remuneration committee. Details of the remuneration of the Directors and the five highest paid individuals of the Group for the year ended 31 December 2021 are set out in notes 8 and 9 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year ended 31 December 2021.

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

As at 31 December 2021, the Directors and chief executive of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Nature of Interest	Number of Ordinary Shares held or interested[1]	Percentage of the Company's issued share capital
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Interest of controlled corporations	178,854,830 (L)[2][3][4]	45.29%
	Beneficial owner	36,030,767 (L)	9.12%
	Interest of spouse	4,376,050 (L)[5]	1.11%
	Beneficiary of a trust	30,000 (L)[8]	0.008%
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Interest of a controlled corporation	77,349,750 (L)[6]	19.59%
	Beneficial owner	4,361,050 (L)	1.10%
	Interest of spouse	137,565,847 (L)[7]	34.84%
	Beneficiary of a trust	15,000 (L)[8]	0.004%
Mr. Cheong Shin Keong	Beneficial owner	4,146,665 (L)	1.05%
Dr. Norimoto Hisayoshi	Beneficial owner	370,000 (L)	0.09%
Mr. Ho Kwok Wah, George	Beneficial owner	18,000 (L)	0.005%
	Beneficiary of a trust	2,000 (L)[8]	0.001%
Dr. Leung Lim Kin, Simon	Beneficial owner	18,000 (L)	0.005%
	Beneficiary of a trust	2,000 (L)[8]	0.001%
Prof. Tsui Lap Chee	Beneficial owner	18,000 (L)	0.005%
	Beneficiary of a trust	2,000 (L)[8]	0.001%

Notes:

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

2. Mr. Abraham Chan beneficially owns 50% of the issued share capital of Joint Partners Investments Limited ("Joint Partners"), which in turn wholly owns the entire issued capital of PuraPharm Corporation Limited ("PuraPharm Corp"), a limited liability company incorporated in the British Virgin Islands on 5 May 1998. PuraPharm Corp owns 77,349,750 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by PuraPharm Corp.

3. Mr. Abraham Chan beneficially owns the entire issued share capital of Fullgold Development Limited ("Fullgold Development"), which in turn owns 81,929,000 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Fullgold Development.

4. Mr. Abraham Chan beneficially owns the entire issued share capital of Gold Sparkle Limited ("Gold Sparkle"), which in turn owns 19,576,080 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Gold Sparkle.

5. Mr. Abraham Chan is the spouse of Ms. Viola Man. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Ms. Viola Man.

6. Ms. Viola Man beneficially owns 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued capital of PuraPharm Corp. PuraPharm Corp owns 77,349,750 Shares. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by PuraPharm Corp.

7. Ms. Viola Man is the spouse of Mr. Abraham Chan. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by Mr. Abraham Chan.

8. These shares represent Shares granted to such directors pursuant to the Share Award Scheme, which are held on trust by the Share Award Scheme Trust until the Shares are vested. For further detail, please refer to the paragraph headed "Share Award Scheme" below.

9. All interests are calculated based on the total Shares in issue as at 31 December 2021, being 394,892,941.

Save as disclosed above, as at 31 December 2021, none of the Directors, chief executive of the Company and/or their respective associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2021, so far as was known to the Directors, the following entity (not being the Director or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of entity	Nature of Interest	Number of Shares held or interested[1]	Percentage of the Company's issued share capital
PuraPharm Corp	Beneficial owner	77,349,750 (L)[2]	19.59%
Joint Partners	Interest of a controlled corporation	77,349,750 (L)[2][3]	19.59%
Fullgold Development	Beneficial owner	81,929,000 (L)	20.75%

Notes:

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

2. Mr. Abraham Chan and Ms. Viola Man beneficially own 50% and 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued share capital of PuraPharm Corp.

3. 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.

4. All interests are calculated based on the total Shares in issue as at 31 December 2021, being 394,892,941.

Save as disclosed above, as at 31 December 2021, no person, other than a Director or chief executive of the Company, had registered an interest or short position in the Shares, underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

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

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

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

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

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

During the year ended 31 December 2021, 2 employee grantees have resigned and 400,000 options were cancelled out of the 15,324,000 options. As a result, there were 14,924,000 outstanding options for the year ended 31 December 2021.

During the Reporting Period, no options were granted by the Board.

Details of the options granted under the Share Option Scheme is as follows:

Grantees	Name of Director	Grant date	Exercise price	Vesting date	As at 1 January 2021	Number of options granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	As at 31 December 2021
Directors	Mr. Chan Yu Ling, Abraham	9 May 2019	HK$2.3	10 May 2020	1,085,228	—	—	—	—	1,085,228
				10 May 2021	1,085,228	—	—	—	—	1,085,228
		24 Jul 2020	HK$0.8	23 Jul 2021	1,740,000	—	—	—	—	1,740,000
				23 Jul 2022	1,740,000	—	—	—	—	1,740,000
	Ms. Man Yee Wai, Viola	9 May 2019	HK$2.3	10 May 2020	354,275	—	—	—	—	354,275
				10 May 2021	354,275	—	—	—	—	354,275
		24 Jul 2020	HK$0.8	23 Jul 2021	1,740,000	—	—	—	—	1,740,000
				23 Jul 2022	1,740,000	—	—	—	—	1,740,000
	Mr. Norimoto Hisayoshi	09 May 2019	HK$2.3	10 May 2020	44,284	—	—	—	—	44,284
				10 May 2021	44,284	—	—	—	—	44,284
				10 May 2022	44,284	—	—	—	—	44,284
				10 May 2023	44,284	—	—	—	—	44,284
		24 Jul 2020	HK$0.8	23 Jul 2021	66,667	—	—	—	—	66,667
				23 Jul 2022	66,667	—	—	—	—	66,667
				23 Jul 2023	66,666	—	—	—	—	66,666
	Mr. Chan Kin Man, Eddie (retired on 28 May 2021)	9 May 2019	HK$2.3	10 May 2020	1,085,228	—	—	—	—	1,085,228
				10 May 2021	1,085,228	—	—	—	—	1,085,228
		24 Jul 2020	HK$0.8	23 Jul 2021	871,000	—	—	—	—	871,000
				23 Jul 2022	871,000	—	—	—	—	871,000
	Dr. Tsoi Kam Biu, Alvin (retired on 28 May 2021)	9 May 2019	HK$2.3	10 May 2020	354,275	—	—	—	—	354,275
				10 May 2021	354,275	—	—	—	—	354,275
		24 Jul 2020	HK$0.8	23 Jul 2021	871,000	—	—	—	—	871,000
				23 Jul 2022	871,000	—	—	—	—	871,000
	Mr. Cheong Shin Keong	24 Jul 2020	HK$0.8	23 Jul 2021	2,000,000	—	—	—	—	2,000,000
				23 Jul 2022	1,480,000	—	—	—	—	1,480,000
Sub-total for Directors					20,059,150	—	—	—	—	20,059,150
Employees		9 May 2019	HK$2.3	10 May 2020	134,638	—	—	—	(46,069)	88,569
				10 May 2021	134,638	—	—	—	(46,069)	88,569
				10 May 2022	134,637	—	—	—	(46,068)	88,569
				10 May 2023	134,637	—	—	—	(46,069)	88,568
					538,550	—	—	—	(184,275)	354,275
		24 July 2020	HK$0.8	23 July 2021	400,000	—	—	—	(133,333)	266,667
				23 July 2022	400,000	—	—	—	(133,333)	266,667
				23 July 2023	400,000	—	—	—	(133,334)	266,666
					1,200,000	—	—	—	(400,000)	800,000
Sub-total for Employees					1,738,550	—	—	—	(584,275)	1,154,275
Total					21,797,700	—	—	—	(584,275)	21,213,425

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

SHARE AWARD SCHEME

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

1. to recognise and motivate the contributions by certain Eligible Award Participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;

2. to attract suitable personnel for further development of the Group; and

3. to provide certain Eligible Award Participants with a direct economic interest in attaining a long term relationship between the Group and certain Eligible Award Participants.

The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administrating the Share Award Scheme. The Share Award Scheme Trust will acquire the Shares from the Stock Exchange, with a maximum amount of funds to be allocated by the Board, and hold such Shares until they are vested. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date.

The Board has resolved in February 2016 that a sum of HK$10,000,000 be provided for the purchase of the Shares to be awarded to the Eligible Award Participants to be selected by the Board. During the year ended 31 December 2021, no Share was purchased by the Share Award Scheme Trust.

As at 31 December 2021, the Share Award Scheme Trust held 959,335 shares (the "Award Shares") (31 December 2020: 1,916,000 Award Shares). During the year ended 31 December 2021, no share (2020: nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 956,665 (2020: 290,000) shares were vested on during the year ended 31 December 2021.

The Group recognised a net share award expense of HK$932,000 for the year ended 31 December 2021 (2020: HK$1,020,000).

CONNECTED TRANSACTIONS

Sale of Assets

On 8 October 2020, Purapharm (Nanning) Pharmaceuticals Co. Limited (a wholly-owned subsidiary of the Company) ("PuraPharm Nanning"), entered into the Asset Sale Agreement with BAGI Research Limited ("BAGI"), to acquire the assets, which comprise the interests and rights of a research and development project in relation to the development of pharmaceutical products for treating irritable bowel syndrome known as 仁術腸樂顆粒. The total consideration for such sale is HK$12,500,000. BAGI is a company indirectly and wholly owned by Mr. Abraham Chan, the executive Director and a controlling shareholders of the Company. Therefore, BAGI is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Asset Sale Agreement will constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As the highest applicable ratio in respect of the Asset Disposal is more than 0.1% but less than 5%, the Asset Disposal is subject to reporting and announcement requirements but exempted from shareholders' approval under Chapter 14A of the Listing Rules.

The certain conditions precedent in the Asset Sale Agreement have not been fulfilled and the parties to the Asset Sale Agreement have not agreed on any further extension of the long stop date for fulfillment of the conditions precedent thereunder, the Asset Sale Agreement has lapsed on 30 September 2021 and the connected transaction contemplated thereunder had lapsed and was not proceeded.

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For further information in relation to the lapse of connected transaction in relation to disposal of assets, please refer to the announcements of the Company dated on 5 October 2021.

Save for the connected transaction ended into during the year ended 31 December 2020 as disclosed above, there have been no other connected transactions entered into by the Group which require disclosure under Chapter 14A of the Listing Rules during the year ended 31 December 2021.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year ended 31 December 2021 are set out in note 35 to the consolidated financial statements. None of the related party transactions would constitute a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Pursuant to the deed of non-competition dated 16 June 2015 entered into by Fullgold Development, Joint Partners, PuraPharm Corp, Mr. Abraham Chan, Ms. Viola Man (collectively known as the "Covenantors") in favour of the Company (the "Deed of Non-Competition), each of the Covenantors has confirmed to the Company of its/his/her compliance with the Deed of Non-Competition during the year ended 31 December 2021.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 35 to the consolidated financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

For details of the Group's environmental policies and performance, please refer to the Environmental, Social and Governance Report set out on pages 50 to 81 of this annual report.

CHANGE OF CHINESE NAME

On 28 May 2021 at the AGM, the special resolution was passed to change the dual foreign name in Chinese from "培力控股有限公司" to "培力農本方有限公司".

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

The Board is not aware any significant event affecting the Company or any of its subsidiaries after 31 December 2021 and up to the date of this annual report requiring disclosure.

AUDITOR

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

ON BEHALF OF THE BOARD
Chan Yu Ling, Abraham
Chairman

Hong Kong
29 March 2022

Independent Auditor's Report

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of PuraPharm Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 128 to 232, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
As at 31 December 2021, the carrying value of goodwill in the consolidated financial statements amounted to HK$20,993,000, after making an impairment of HK$134,692,000. In accordance with HKFRSs, the Company is required to perform the impairment test for goodwill annually. In performing the impairment test, the goodwill generated from each acquisition is allocated to the corresponding subsidiaries acquired as each of these acquired subsidiaries is a separate cash-generating unit (the "CGU"). The recoverable amount of each cash-generating unit is the higher of its fair value less costs of disposal and its value in use using discounted cash flow models based on a financial budget covering a period of 5 to 8 years. The impairment test involves significant judgements about future business performance, with key assumptions including cash flows, the overall long-term growth rates and discount rates used. This matter was significant to our audit because the balance was material and the test process involved significant judgements. The disclosures about the impairment of goodwill are included in note 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, note 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES and note 16 GOODWILL to the consolidated financial statements.	Our audit procedures included, among others, the following: We involved our internal valuation specialists to assist us in evaluating the methodologies and the discount rate used by the Group for determining the recoverable amount. We evaluated the underlying data used in the management's cash flow projection on the future revenues and operating results by comparing to the financial performance of each CGU during the year 2021. We evaluated management's assumptions of growth rate of each CGU by examining the business development plans and historical annual growth of each CGU. We also assessed the adequacy of the related disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of biological assets	
The Group's biological assets comprise raw Chinese herbs. The balance of the Group's biological assets, which were measured at fair value less cost to sell, was HK$64,807,000 as at 31 December 2021. Management engaged an independent external valuer to assess the fair value of the Group's biological assets as at 31 December 2021. We identified the valuation of biological assets as a key audit matter since (i) the carrying value of biological assets was material to the Group; and (ii) significant estimates were involved in the assessment. The disclosures about the valuation of biological assets are included in note 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and note 20 BIOLOGICAL ASSETS to the consolidated financial statements.	Our audit procedures included, among others as above: We evaluated the independence, competence and objectivity of the independent external valuer and the independent industry expert who were engaged by management for the valuation of the biological assets. We involved our internal valuation specialists to assist us in evaluating the discount rate and methodologies used by the management. We assessed the input with the significant judgement and estimation on a sample basis by comparing the estimated yields, plantation periods, expected price and price growth rates with latest sales or plantation records and published market data. For those biological assets without historical plantation records, we evaluated management's estimation regarding the yields and plantation periods by comparing with the assessment result of the independent industry expert. We also assessed the adequacy of the related disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of trade and bills receivables	
As at 31 December 2021, the Group had trade and bills receivables of HK$261,406,000, after making a provision of HK$43,852,000. The Group uses a provision matrix to calculate expected credit losses ("ECL") for trade and bills receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. This matter was significant to our audit because of the high level of management estimation required and the materiality of amounts. The disclosures about the provision for impairment of trade and bills receivables are included in note 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, note 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES and note 21 TRADE AND BILLS RECEIVABLES to the consolidated financial statements.	We assessed the Group's internal controls over the credit control of trade and bills receivables and evaluated the mathematic calculation by recalculating the provision matrix of ECLs. We evaluated the assumptions used in the ECL model by 1) assessing management's determination of the groupings of customer segments with similar loss patterns by reviewing the credit terms and historical payment patterns of different categories of the customers; 2) examining the underlying data used in the provision matrix by checking to the corresponding ageing and payment records; and 3) evaluating forward-looking adjustments by analysing the deviation between forward-looking factors and the Group's historical default rate. We also assessed the adequacy of the related disclosures in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

29 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
REVENUE	5	659,592	601,815
Cost of sales		(236,239)	(231,866)
Gross profit		423,353	369,949
Other income and gains	5	12,502	94,727
Selling and distribution expenses		(220,006)	(210,539)
Administrative expenses		(168,451)	(153,457)
Impairment loss on property, plant and equipment	13	—	(229)
Impairment loss on goodwill	16	(67,346)	—
Impairment loss on financial assets, net	6	(17,278)	(10,831)
Other expenses		(52,939)	(22,573)
Finance costs	7	(27,027)	(26,830)
(LOSS)/PROFIT BEFORE TAX	6	(117,192)	40,217
Income tax expense	10	(4,685)	(8,507)
(LOSS)/PROFIT FOR THE YEAR		(121,877)	31,710
Attributable to:			
Owners of the parent		(121,877)	31,710
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
— For (loss)/profit for the year (expressed in HK cents per share)		(30.95)	8.55
Diluted			
— For (loss)/profit for the year (expressed in HK cents per share)		(30.95)	8.54

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
(LOSS)/PROFIT FOR THE YEAR	(121,877)	31,710
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	8,273	14,136
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	8,273	14,136
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(113,604)	45,846
Attributable to:		
Owners of the parent	(113,604)	45,846

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	344,114	322,839
Investment properties	14	6,560	7,568
Right-of-use assets	15(a)	116,901	136,513
Goodwill	16	20,993	88,339
Other intangible assets	17	41,062	42,920
Financial assets at fair value through profit or loss	18	18,562	18,258
Biological assets	20	31,048	95,084
Prepayments for non-current assets	22	5,283	44,087
Deferred tax assets	28	10,483	11,291
Total non-current assets		595,006	766,899
CURRENT ASSETS			
Inventories	19	166,039	180,124
Biological assets	20	33,759	10,026
Trade and bills receivables	21	261,406	221,528
Prepayments, other receivables and other assets	22	62,351	68,637
Tax recoverable		2,248	906
Pledged deposits	23	25,383	35,056
Cash and cash equivalents	23	59,671	91,401
Total current assets		610,857	607,678
CURRENT LIABILITIES			
Trade and bills payables	24	140,679	159,344
Other payables and accruals	25	97,811	110,318
Interest-bearing bank and other borrowings	26	407,671	279,329
Lease liabilities	15(b)	13,239	31,402
Amount due to a related company	35(c)	—	5,900
Tax payable		3,578	2,845
Government grants	27	2,336	2,749
Total current liabilities		665,314	591,887
NET CURRENT (LIABILITIES)/ASSETS		(54,457)	15,791
TOTAL ASSETS LESS CURRENT LIABILITIES		540,549	782,690

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	25	24,157	50,564
Interest-bearing bank and other borrowings	26	91,997	178,992
Lease liabilities	15(b)	19,052	34,388
Government grants	27	1,174	3,853
Deferred tax liabilities	28	2,611	3,235
Total non-current liabilities		138,991	271,032
Net assets		401,558	511,658
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	306,042	306,042
Shares held for share award scheme	30(b)	(3,221)	(6,258)
Reserves	31	98,737	211,874
Total equity		401,558	511,658

Mr. Chan Yu Ling, Abraham
Director

Ms. Man Yee Wai, Viola
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Notes	Share capital HK$'000 (note 29)	Share premium account HK$'000 (note 29)	Shares held for share award scheme HK$'000 (note 30(b))	Reserve for share award and share option scheme HK$'000 (note 30)	Merger reserve HK$'000 (note 31)	Surplus reserves HK$'000 (note 31)	Capital reserve HK$'000 (note 31)	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2020		204,028	224,484	(7,200)	5,524	1,814	28,646	(7,505)	(16,157)	(71,511)	362,123
Profit for the year		–	–	–	–	–	–	–	–	31,710	31,710
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	14,136	–	14,136
Total comprehensive income for the year		–	–	–	–	–	–	–	14,136	31,710	45,846
Transfer from retained profits		–	–	–	–	–	518	–	–	(518)	–
Issue of shares	29	102,014	3,291	–	–	–	–	–	–	–	105,305
Share issue expense	29	–	(7,257)	–	–	–	–	–	–	–	(7,257)
Recognition of equity-settled share option expenses	30(a)	–	–	–	4,707	–	–	–	–	–	4,707
Recognition of equity-settled share award expenses	30(b)	–	–	–	1,020	–	–	–	–	–	1,020
Forfeiting of share option		–	–	–	(86)	–	–	–	–	–	(86)
Transfer of vested shares under Share Award Scheme		–	140	942	(1,082)	–	–	–	–	–	–
At 31 December 2020		306,042	220,658*	(6,258)	10,083*	1,814*	29,164*	(7,505)*	(2,021)*	(40,319)*	511,658

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Notes	Share capital HK$'000 (note 29)	Share premium account HK$'000 (note 29)	Shares held for share award scheme HK$'000 (note 30(b))	Reserve for share award and share option scheme HK$'000 (note 30)	Merger reserve HK$'000 (note 31)	Surplus reserves HK$'000 (note 31)	Capital reserve HK$'000 (note 31)	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2021		306,042	220,658	(6,258)	10,083	1,814	29,164	(7,505)	(2,021)	(40,319)	511,658
Loss for the year		–	–	–	–	–	–	–	–	(121,877)	(121,877)
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	8,273	–	8,273
Total comprehensive (loss)/income for the year		–	–	–	–	–	–	–	8,273	(121,877)	(113,604)
Transfer from retained profits		–	–	–	–	–	156	–	–	(156)	–
Recognition of equity-settled share option expenses	30(a)	–	–	–	3,219	–	–	–	–	–	3,219
Recognition of equity-settled share award expenses	30(b)	–	–	–	932	–	–	–	–	–	932
Forfeiting of share option		–	–	–	(414)	–	–	–	–	–	(414)
Forfeiting of share award under Share Award Scheme		–	–	–	(233)	–	–	–	–	–	(233)
Transfer of vested shares under Share Award Scheme		–	531	3,037	(3,568)	–	–	–	–	–	–
At 31 December 2021		306,042	221,189*	(3,221)	10,019*	1,814*	29,320*	(7,505)*	6,252*	(162,352*)	401,558

* These reserve accounts comprise the consolidated reserves of HK$98,737,000 (2020: HK$211,874,000) in the consolidated statement of financial position as at 31 December 2021.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(117,192)	40,217
Adjustments for:			
Finance costs	7	27,027	26,830
Bank interest income	5	(360)	(456)
Foreign exchange gain, net	6	(711)	(3,996)
Loss on disposal of property, plant and equipment	6	6	2,109
Equity-settled share award and share option expenses	30	3,504	5,641
Covid-19-related rent concessions from lessors	15(b)	(106)	(1,970)
Depreciation of property, plant and equipment	6	22,660	21,244
Depreciation of right-of-use assets	6	22,278	22,116
Amortisation of intangible assets	6	5,201	4,266
Fair value loss on investment properties	6	1,197	464
Fair value gain on financial assets at fair value through profit or loss	6	(304)	(63)
Fair value loss/(gain) on biological assets	6	47,459	(20,800)
Gain on disposal of right-of-use assets	6	(190)	—
Impairment loss on property, plant and equipment	6	—	229
Impairment loss on goodwill	6	67,346	—
Write-down of inventories to net realisable value	6	8,115	2,738
Impairment loss on trade and bills receivables, net	6	17,033	10,831
Impairment loss on other receivables, net	6	245	—
		103,208	109,400
Decrease in inventories		35,475	39,451
Increase in biological assets		(30,797)	(28,109)
(Increase)/decrease in trade and bills receivables		(51,190)	10,679
Decrease/(increase) in prepayments, deposits and other receivables		7,258	(2,716)
Decrease in trade and bills payables		(22,563)	(29,621)
(Decrease)/increase in government grants		(3,222)	2,521
(Decrease)/increase in other payables and accruals		(42,302)	28,001
Decrease in amount due to related companies		(5,900)	—
Cash (used in)/generated from operations		(10,033)	129,606
Interest received		360	456
Hong Kong profits tax paid		(2,831)	(4,954)
Overseas profits tax paid		(442)	(1,857)
PRC profit taxes paid		(1,574)	(3,397)
Net cash flows (used in)/generated from operating activities		(14,520)	119,854

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(3,093)	(76,047)
Proceeds from disposal of property, plant and equipment		2,891	677
Additions to intangible assets		(3,466)	(6,799)
Decrease/(increase) in pledged time deposits, net		9,673	(9,941)
Net cash flows generated from/(used in) investing activities		6,005	(92,110)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings	32(b)	374,882	407,188
Repayment of bank loans and other borrowings	32(b)	(330,211)	(424,775)
Share issue expenses	29	—	(7,257)
Proceeds from issue of shares		—	105,305
Loans paid to a director	32(b)	—	(15,000)
Principal portion of lease payments	32(b)	(33,679)	(35,902)
Interest paid for lease liabilities	32(b)	(2,220)	(4,528)
Interest paid for bank and other borrowings	32(b)	(24,807)	(28,644)
Net cash flows used in financing activities		(16,035)	(3,613)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(24,550)	24,131
Cash and cash equivalents at beginning of year		75,810	50,429
Effect of foreign exchange rate changes, net		6,248	1,250
CASH AND CASH EQUIVALENTS AT END OF YEAR		57,508	75,810
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	59,671	91,401
Bank overdrafts	26	(2,163)	(15,591)
Cash and cash equivalents as stated in the statement of cash flows		57,508	75,810

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PuraPharm Holdings Limited	BVI	United States dollar ("US$") 1	100%	—	Investment holding
Natural Corporation Limited	Hong Kong	HK$100	—	100%	Trading of Chinese healthcare products
PuraPharm International (H.K.) Limited[(a)]	Hong Kong	HK$2,000,000	—	100%	Manufacture and trading of Chinese healthcare products
Nong's International Limited	BVI	US$1	—	100%	Investment holding and trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm (Nanning) Pharmaceuticals Co. Limited[(b)]	People's Republic of China ("PRC")/ Mainland China	Chinese yuan ("RMB") 202,000,000	—	100%	Manufacture and trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm International (Singapore) Pte Limited	Singapore	Singapore dollar 2	—	100%	Trading of Chinese healthcare products
PuraPharm Corporation	United States of America ("USA")	US$1,000	—	100%	Trading of Chinese healthcare products
Nong's Corporation Limited	BVI	US$25,019	—	100%	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PuraPharm Research Corporation Limited	Hong Kong	HK$10,000	—	100%	Research and development of modernised Chinese medicines
PuraPharm International Limited	Hong Kong	HK$2	—	100%	Trading of Chinese healthcare products
Nong's Company Limited[(a)]	Hong Kong	HK$2	—	100%	Trading of modernised Chinese medicines
Nong's Chinese Medicine Health Care Centre Limited	Hong Kong	HK$10,000	—	100%	Provision of Chinese medical diagnostic services
Poly Modern TCM Research Institute Limited	Hong Kong	HK$48,160,000	—	100%	Trading of Chinese healthcare products
Nong's Clinic Holdings Limited	BVI	US$1,283	—	100%	Investment holding
Nong's Chinese Medicine Clinic Centre Limited	Hong Kong	HK$2	—	100%	Provision of Chinese medical diagnostic services
PuraPharm Investment Limited	Hong Kong	HK$1	—	100%	Trading of Chinese medicines
PuraPharm Australia Pty Ltd.	Australia	Australian dollar ("AU$") 1	—	100%	Trading of Chinese healthcare products
PuraPharm Health Limited	BVI	US$1	—	100%	Investment holding
PuraPharm (Macao) Limited	Macau	Macau pataca 25,000	—	100%	Trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm Canada Corporation	Canada	HK$100	—	100%	Trading of Chinese healthcare products
Nong's (Guangxi) Company Limited	Hong Kong	HK$10,000	—	100%	Investment holding
南寧培力醫藥技術有限公司[(b)]	PRC/Mainland China	RMB3,470,000	—	100%	Research and development of Chinese healthcare products and modernised Chinese medicines
Nong's Healthcare 1 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 2 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nong's Healthcare 3 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 4 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 5 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 6 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 7 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 8 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 9 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 10 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 11 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 12 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 13 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 14 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 15 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 16 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nong's Healthcare 17 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 18 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 19 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 20 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 21 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 22 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 23 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 24 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 25 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 26 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 27 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 28 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 29 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 30 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PuraPharm Japan Corporation	Japan	Japanese yen ("JPY") 180,010,000	—	100%	Research and development of new products
K'an Herb Company	USA	US$233,848	—	100%	Manufacture and sale of Chinese herbal products
Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd.[(b)]	PRC	RMB100,000,000	—	100%	Plantation and trading of raw Chinese herbs
Gold Sparkle (Guizhou) HZ Plantation Co., Ltd.[(b)]	PRC	RMB30,000,000	—	100%	Plantation and trading of raw Chinese herbs
SODX Co., Ltd.	Japan	JPY90,000,000	—	100%	Manufacture and sale of health food
南寧農本方中醫門診部有限公司[(b)]	PRC	RMB3,000,000	—	100%	Provision of Chinese medical diagnostic services
上海農本方中醫門診部有限公司[(b)]	PRC	RMB3,500,000	—	100%	Provision of Chinese medical diagnostic services
Nanning Nong's Medical Consulting Company Limited [(b)]	PRC	RMB15,000,000	—	100%	Investment properties holding
上海培力營銷諮詢服務有限公司[(b)]	PRC	RMB2,000,000	—	100%	Provision of marketing consultation services

(a) The statutory financial statements of these entities were prepared under HKFRSs and were audited by Ernst & Young, Hong Kong.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION

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

As at 31 December 2021, the Group had net current liabilities of HK$54.5 million (31 December 2020: net current assets of HK$15.8 million). In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

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

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

(c) As at 31 December 2021, the Group had unutilised bank facilities amounting to HK$67.7 million (note 26), which could be utilised to repay the total principal and interest due upon the respective repayment dates. Based on the past experience and maturity of the aforesaid facilities, the directors consider it is highly probable that the Group can withdraw adequate amount of short-term bank loans for another year to maintain sufficient working capital of the Group.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period over twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with the Group's internally generated funds and unutilised bank facilities, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2021 on a going concern basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[2]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022

2 Effective for annual periods beginning on or after 1 January 2023

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Fair value measurement

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

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

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

Trademarks, patents, licences and software

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

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

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

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

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

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

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

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

Group as a lessor

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor (continued)

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

The Group's financial assets include financial assets at fair value through profit or loss, cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost

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

Financial assets at fair value through profit or loss

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

This category includes life insurance policies which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

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

Biological assets

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of goods

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

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

(i) Rights of return

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

(ii) Volume rebates

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

(b) Rendering of services

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

Other income

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

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the relevant services have been rendered and it is probable that economic benefits will flow to the Group and the revenue can be measured reliably; and

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

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

Right-of-return assets

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

Refund liabilities

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

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Employee benefits

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Withholding taxes arising from the distribution of dividends

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was HK$20,993,000 (31 December 2020: HK$88,339,000). Further details are given in note 16 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of biological assets

The biological assets are stated at fair values less cost to sell. This requires an independent valuer's assessment of the fair value of the biological assets. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these biological assets. Further details are given in note 20 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Provision for expected credit losses on trade and bills receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables is disclosed in note 21 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for certain deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 28 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision required involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed. Further details are given in note 19 to the financial statements.

Leases — Estimating the incremental borrowing rate

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2021 and 2020.

31 December 2021

	China CCMG HK$'000	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Plantation HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue (note 5):							
External customers	352,996	162,740	78,098	50,027	15,731	—	659,592
Intersegment sales	98,052	7,900	996	—	29,097	(136,045)	—
	451,048	170,640	79,094	50,027	44,828	(136,045)	659,592
Segment results	61,931	41,083	9,288	(8,044)	(141,870)	—	(37,612)
Reconciliations:							
Interest income							360
Foreign exchange gain, net							711
Equity-settled share award and share option expenses							(3,504)
Finance costs (other than interest on lease liabilities)							(24,807)
Corporate and other unallocated expenses							(52,340)
Loss before tax							(117,192)
Income tax expense							(4,685)
Net Loss							(121,877)
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible asset	14,010	2,791	4,393	861	5,806	—	27,861
Depreciation of right-of-use asset	7,290	1,155	5,626	6,269	1,938	—	22,278
Loss on disposal of items of property, plant and equipment	—	—	6	—	—	—	6
Write-down of inventories to net realisable value	2,259	570	606	—	4,680	—	8,115
Impairment loss on trade and bills receivables, net	12,345	(282)	88	—	4,882	—	17,033
Impairment loss on other receivables, net	245	—	—	—	—	—	245
Government grants	5,992	—	133	77	1,913	—	8,115
Capital expenditure*	40,898	1,306	1,824	8,480	2,006	—	54,514

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. OPERATING SEGMENT INFORMATION (continued)

31 December 2020

	China CCMG HK$'000	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Plantation HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue (note 5):							
External customers	278,478	146,433	85,752	49,924	41,228	—	601,815
Intersegment sales	72,050	7,901	1,261	—	2,588	(83,800)	—
	350,528	154,334	87,013	49,924	43,816	(83,800)	601,815
Segment results	29,366	32,815	13,527	(3,232)	38,993	—	111,469
Reconciliations:							
Interest income							456
Foreign exchange gain, net							3,996
Equity-settled share award and share option expenses							(5,641)
Finance costs (other than interest on lease liabilities)							(22,302)
Corporate and other unallocated expenses							(47,761)
Profit before tax							40,217
Income tax expense							(8,507)
Net Profit							31,710
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible asset	11,127	2,771	4,058	2,511	5,043	—	25,510
Depreciation of right-of-use asset	7,968	1,155	5,443	5,390	2,160	—	22,116
Loss on disposal of items of property, plant and equipment	1,389	173	161	386	—	—	2,109
Write-down of inventories to net realisable value	1,779	296	663	—	—	—	2,738
Impairment loss on property, plant and equipment	229	—	—	—	—	—	229
Impairment loss on trade and bills receivables, net	8,170	(105)	(28)	—	2,794	—	10,831
Government grants	20,048	1,811	1,112	3,608	39,220	—	65,799
Capital expenditure*	74,752	10,451	28,742	10,455	6,130	—	130,530

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2021 HK$'000	2020 HK$'000
Hong Kong	242,477	227,922
Mainland China	374,089	323,339
Other countries/regions	43,026	50,554
	659,592	601,815

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

(b) Non-current assets

	2021 HK$'000	2020 HK$'000
Hong Kong	70,778	143,342
Mainland China	461,941	550,635
Other countries/regions	33,242	43,373
	565,961	737,350

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

Information about a major customer

For the years ended 31 December 2021 and 2020, there was no single customer from which more than 10% of the Group's total revenue was derived.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS

(a) Revenue

An analysis of revenue is as follows:

	2021 HK$'000	2020 HK$'000
Revenue from contracts with customers		
Sale of CCMG products	552,512	462,284
Sale of Chinese healthcare products	78,098	85,752
Sale of raw Chinese herbs	15,731	41,228
Rendering of Diagnostic Services	13,251	12,551
	659,592	601,815

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2021

Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Types of goods or services			
Sale of goods	646,341	—	646,341
Rendering of services	—	13,251	13,251
Total revenue from contracts with customers	646,341	13,251	659,592
Geographical markets			
Hong Kong	229,681	12,796	242,477
Mainland China	373,634	455	374,089
Other countries/regions	43,026	—	43,026
Total revenue from contracts with customers	646,341	13,251	659,592
Timing of revenue recognition			
Goods transferred at a point in time	646,341	—	646,341
Services transferred over time	—	13,251	13,251
Total revenue from contracts with customers	646,341	13,251	659,592

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS (continued)

(a) Revenue (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2020

Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Types of goods or services			
Sale of goods	589,264	—	589,264
Rendering of services	—	12,551	12,551
Total revenue from contracts with customers	589,264	12,551	601,815
Geographical markets			
Hong Kong	215,853	12,069	227,922
Mainland China	322,857	482	323,339
Other countries/regions	50,554	—	50,554
Total revenue from contracts with customers	589,264	12,551	601,815
Timing of revenue recognition			
Goods transferred at a point in time	589,264	—	589,264
Services transferred over time	—	12,551	12,551
Total revenue from contracts with customers	589,264	12,551	601,815

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

For the year ended 31 December 2021

Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Revenue from contracts with customers			
External customers	646,341	13,251	659,592
Intersegment sales	136,045	—	136,045
Intersegment adjustments and eliminations	(136,045)	—	(136,045)
Total revenue from contracts with customers	646,341	13,251	659,592

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS (continued)

(a) Revenue (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2020

Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Revenue from contracts with customers			
External customers	589,264	12,551	601,815
Intersegment sales	83,800	—	83,800
	673,064	12,551	685,615
Intersegment adjustments and eliminations	(83,800)	—	(83,800)
Total revenue from contracts with customers	589,264	12,551	601,815

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

	2021 HK$'000	2020 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	9,480	13,786
Rendering of services	315	255
	9,795	14,041

(ii) Performance obligations

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

Sale of goods

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

Rendering of services

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS (continued)

(b) Other income and gains

	Notes	2021 HK$'000	2020 HK$'000
Fair value gain on biological assets, net	20	—	20,800
Foreign exchange gain, net		711	3,996
Government grants*	27	8,115	65,799
Gain from the sale of equipment and accessories		1,552	1,054
Bank interest income		360	456
Gross rental income from investment property operating leases:			
Variable lease payments that do not depend on an index or a rate	15	510	358
Others		1,254	2,264
		12,502	94,727

* The amount represented government grants from the relevant authorities in the PRC and Hong Kong government, which consisted primarily of the PRC subsidies and compensation for operation finance costs, research and development costs and grants for improvement of the Group's research facilities in relation to certain research and development projects and the subsidies from Hong Kong Government to support enterprise against the negative impact brought by the COVID-19 pandemic.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2021 HK$'000	2020 HK$'000
Cost of inventories sold		229,844	225,396
Cost of services provided		6,395	6,470
Depreciation of property, plant and equipment	13	22,660	21,244
Depreciation of right-of-use assets	15(a)	22,278	22,116
Amortisation of intangible assets	17	5,201	4,266
Fair value loss on investment properties*	14	1,197	464
Fair value gain on financial assets at fair value through profit or loss*	18	(304)	(63)
Fair value loss/(gain) on biological assets, net*	20	47,459	(20,800)
Impairment loss on property, plant and equipment	13	—	229
Gain on disposal of right-of-use assets	15(c)	(190)	—
Impairment loss on goodwill	16	67,346	—
Write-down of inventories to net realisable value**	19	8,115	2,738
Impairment loss on trade and bills receivables	21	17,033	10,831
Impairment loss on other receivables	22	245	—
Litigation claims		—	11,740
Lease payments not included in the measurement of lease liabilities	15(c)	6,039	4,457
Auditors' remuneration		2,758	3,440
Employee benefit expense (excluding directors' remuneration):			
Wages and salaries		80,628	78,455
Pension scheme contributions (defined contribution scheme)****		8,964	8,726
Equity-settled share award and share option expenses		562	608
		90,154	87,789
Research and development costs***		25,452	22,038
Loss on disposal of property, plant and equipment*		6	2,109
Foreign exchange gain, net*		(711)	(3,996)

* Fair value gain on financial assets at fair value through profit or loss and biological asset was included in "Other income and gain" in the consolidated statement of profit or loss for the year ended 31 December 2021 and 2020. The fair value loss on investment properties, financial asset at fair value through profit or loss, and biological asset, loss on disposal of property, plant and equipment were included in "Other expense" in the consolidated statement of profit or loss for the years ended 31 December 2021 and 2020.

** The write-down of inventories to net realisable value was included in the "Cost of sales" in the consolidated statement of profit or loss for the years ended 31 December 2021 and 2020.

*** HK$1,502,000 (2020: HK$1,260,000) disclosed in the item of "Depreciation" and HK$6,457,000 (2020: HK$6,428,000) disclosed in the item of "Employee benefit expense" were also included in "Research and development costs".

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	2021 HK$'000	2020 HK$'000
Interests on bank loans and other borrowings		24,807	26,028
Interests on lease liabilities	15(c)	2,220	4,528
Less: Interest capitalised	13	—	(3,726)
		27,027	26,830

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group 2021 HK$'000	2020 HK$'000
Fees	1,283	1,442
Other emoluments:		
Salaries, allowances and benefits in kind	8,201	5,123
Pension scheme contributions	44	60
Equity-settled share award and share option expenses (note 30)	2,942	5,033
	11,187	10,216
	12,470	11,658

(a) Independent non-executive directors

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

2021	Fees HK$'000	Equity-settled share award expenses HK$'000	Total remuneration HK$'000
Dr. Leung Lim Kin, Simon	200	3	203
Prof. Tsui Lap Chee	200	3	203
Dr. Chan Kin Keung, Eugene[(a)]	83	3	86
Mr. Ho Kwok Wah, George	200	3	203
	683	12	695

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

(a) Independent non-executive directors (continued)

2020	Fees HK$'000	Equity-settled share award expenses HK$'000	Total remuneration HK$'000
Dr. Leung Lim Kin, Simon	200	8	208
Prof. Tsui Lap Chee	200	8	208
Dr. Chan Kin Keung, Eugene	200	8	208
Mr. Ho Kwok Wah, George	200	8	208
	800	32	832

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2021 and 2020.

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

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

	Fees HK$'000	Equity-settled share award and share option expenses HK$'000	Salaries, compensation, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2021					
Chief executive and executive director					
Mr. Chan Yu Ling, Abraham	—	819	3,637	18	4,474
Executive directors					
Ms. Man Yee Wai, Viola	—	806	1,232	18	2,056
Mr. Cheong Shin Keong[(b)]	—	—	1,002	—	1,002
Dr. Norimoto Hisayoshi[(c)]	—	214	1,646	—	1,860
Dr. Tsoi Kam Biu, Alvin[(d)]	—	369	684	8	1,061
	—	1,389	4,564	26	5,979
Non-executive directors					
Mr. Chow, Stanley	400	—	—	—	400
Mr. Cheong Shin Keong	117	387	—	—	504
Mr. Chan Kin Man, Eddie[(e)]	83	335	—	—	418
	600	722	—	—	1,322
	600	2,930	8,201	44	11,775

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

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

	Fees HK$'000	Equity-settled share award and share option expenses HK$'000	Salaries, compensation, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2020					
Chief executive and executive director					
Mr. Chan Yu Ling, Abraham	—	1,553	2,538	18	4,109
Executive directors					
Mr. Chan Kin Man, Eddie	—	782	133	—	915
Dr. Tsoi Kam Biu, Alvin	—	584	821	18	1,423
Ms. Man Yee Wai, Viola	—	751	616	18	1,385
Mr. Cheong Shin Keong	—	740	800	6	1,546
Dr. Norimoto Hisayoshi	—	11	215	—	226
	—	2,868	2,585	42	5,495
Non-executive directors					
Mr. Chow, Stanley	400	—	—	—	400
Mr. Cheong Shin Keong	175	86	—	—	261
Mr. Chan Kin Man, Eddie	67	494	—	—	561
	642	580	—	—	1,222
	642	5,001	5,123	60	10,826

(a) Dr. Chan Kin Keung, Eugene resigned on 28 May 2021.

(b) Mr. Cheong Shin Keong was appointed as a non-executive director of the Group by the board of directors on 24 March 2020 and re-designed from a non-executive director to an executive director by the board of directors on 1 September 2020. During the year ended 31 December 2021, Mr. Cheong Shin Keong resigned and left the Company on 28 May 2021.

(c) Dr. Norimoto Hisayoshi was appointed as an executive director of the Group by the board of directors on 17 November 2020.

(d) Dr. Tsoi Kam Biu, Alvin resigned and left the company on 28 May 2021.

(e) Mr. Chan Kin Man, Eddie has been re-designed from an executive director to a non-executive director by the board of directors on 1 September 2020 and resigned on 28 May 2021.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2020: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2020: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2021 HK$'000	2020 HK$'000
Salaries, allowances and benefits in kind	1,438	2,328
Equity-settled share award and share option expenses	—	15
Pension scheme contributions	18	—
	1,456	2,343

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

	Number of employee 2021	2020
HK$1,000,001 to HK$1,500,000	1	—
HK$1,500,001 to HK$3,000,000	—	1
	1	1

10. INCOME TAX

The Group is subject to income tax on an entity basis on (loss)/profit arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2020: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. U.S. and Japan profits taxes have been provided at the rates of 24% (2020: 24%) and 23.2% (2020: 23.2%) on the estimated assessable profits arising in U.S. and Japan, respectively, during the years ended 31 December 2021 and 2020. 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%.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

10. INCOME TAX (continued)

According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) DZ Plantation Co., Ltd., Guizhou Jinping Gold Sparkle Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. have obtained the documentation acknowledged by the tax authority in charge for the Company income tax exemption for year 2021 and the preferential income tax rate was 0%.

	2021 HK$'000	2020 HK$'000
Current	4,263	6,339
Deferred (note 28)	422	2,168
Total tax charge for the year	4,685	8,507

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

2021

	Mainland China		Hong Kong		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before tax	(123,338)	—	17,047	—	(10,901)	—	(117,192)	—
Tax at the statutory tax rates	(30,180)	24.5	2,813	16.5	(91)	0.8	(27,458)	23.4
Lower tax rate enacted by local authority	(346)	0.3	—	—	—	—	(346)	0.3
Tax waiver	—	—	(165)	(1.0)	—	—	(165)	0.1
Income not subject to tax	—	—	(191)	(1.1)	—	—	(191)	0.2
Tax incentive on eligible expenses	(1,954)	1.6	—	—	—	—	(1,954)	1.7
Adjustments in respect of current tax of previous periods	530	(0.4)	(403)	(2.4)	—	—	127	(0.1)
Expenses not deductible for tax	16,869	(13.7)	330	1.9	—	—	17,199	(14.7)
Tax losses utilised from previous years	(7,513)	6.1	—	—	(197)	1.8	(7,710)	6.6
Tax losses not recognised	21,864	(17.7)	(351)	(2.1)	728	(6.7)	22,241	(19.0)
Write-off of deferred tax assets recognised in previous years	629	(0.5)	2,313	13.6	—	—	2,942	(2.5)
Tax charge at the Group's effective rate	(101)	0.1	4,346	25.5	440	(4.0)	4,685	(4.0)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

10. INCOME TAX (continued)

2020

	Mainland China HK$'000	%	Hong Kong HK$'000	%	Others HK$'000	%	Total HK$'000	%
Profit/(Loss) before tax	29,678		16,087		(5,548)		40,217	
Tax at the statutory tax rates	7,418	25.0	2,654	16.5	2,024	(36.5)	12,096	30.1
Lower tax rate enacted by local authority	(1,144)	(3.9)	—	—	—	—	(1,144)	(2.8)
Preferential income tax for agriculture business	(4,525)	(15.2)	—	—	—	—	(4,525)	(11.3)
Tax waiver	—	—	(165)	(1.0)	—	—	(165)	(0.4)
Income not subject to tax	—	—	(54)	(0.3)	—	—	(54)	(0.1)
Tax incentive on eligible expenses	(1,792)	(6.0)	—	—	—	—	(1,792)	(4.5)
Adjustments in respect of current tax of previous periods	(701)	(2.4)	828	5.1	2	—	129	0.3
Expenses not deductible for tax	405	1.4	64	0.4	—	—	469	1.2
Tax losses utilised from previous years	(4,351)	(14.7)	—	—	(1,018)	18.3	(5,369)	(13.4)
Write-off of deferred tax assets recognised in previous years	2,096	7.1	—	—	—	—	2,096	5.2
Tax losses not recognised	3,939	13.3	1,786	11.1	1,041	(18.8)	6,766	16.8
Tax charge at the Group's effective rate	1,345	4.6	5,113	31.8	2,049	(37.0)	8,507	21.1

11. DIVIDENDS

No dividend was proposed for the years ended 31 December 2021 and 2020.

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

	2021	2020
(Loss)/earnings per share attributable to ordinary equity holders of the parent — Basic (HK cents)	(30.95)	8.55
— Diluted (HK cents)	(30.95)	8.54

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

(a) Basic

Basic loss (2020: earnings) per share is calculated by dividing the loss (2020: profit) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year ended 31 December 2021 excluding ordinary shares purchased by the Group and held for the Award Scheme (note 30(b)).

	2021	2020
(Loss)/profit attributable to ordinary equity holders of the parent (HK$'000)	(121,877)	31,710
Weighted average number of ordinary shares in issue	393,732,673	370,845,654
Basic (loss)/earnings per share (expressed in HK cents per share)	(30.95)	8.55

The calculation of the weighted average number of ordinary shares amounting to 393,732,673 (2020: 370,845,654) in issue for the year ended 31 December 2021 is as follows:

	Notes	2021	2020
Number of issued shares on 1 January	29	263,261,961	263,261,961
Adjustment for shares held for share award scheme	30(b)	(1,160,268)	(2,048,685)
Effect of right issue on 2 March 2020	29	131,630,980	109,632,378
Weighted average number of ordinary shares		393,732,673	370,845,654

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

(b) Diluted

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

	Note	2021	2020
(Loss)/profit attributable to the ordinary equity holders of the parent (HK$'000)		(121,877)	31,710
Weighted average number of ordinary shares in issue during the year		393,732,673	370,845,654
Adjustment for Award Shares*	30(b)	—	567,685
Weighted average number of ordinary shares for diluted earnings per share calculation		393,732,673	371,413,339
Diluted (loss)/earnings per share (expressed in HK cents per share)		(30.95)	8.54

* Because the diluted loss per share amount is increased when taking the Award Shares into account, the Award Shares had an anti-dilutive effect on the basic loss per share during the year ended 31 December 2021 and were ignored in the calculation of diluted loss per share during the year ended 31 December 2021.

The Group also had no potentially dilutive ordinary shares in issue for share options during the year ended 31 December 2021 as its excise price is higher than the market price of the Group's shares as at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT

	Note	Land and Buildings HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2021								
At 1 January 2021:								
Cost		204,717	40,622	130,781	39,633	7,420	85,776	508,949
Accumulated depreciation and impairment		(23,782)	(38,422)	(80,746)	(28,700)	(6,513)	(7,947)	(186,110)
Net carrying amount		180,935	2,200	50,035	10,933	907	77,829	322,839
At 1 January 2021, net of accumulated depreciation and impairment		180,935	2,200	50,035	10,933	907	77,829	322,839
Additions		24,286	452	10,819	4,356	—	2,981	42,894
Disposals		—	(1,584)	(113)	(1,143)	—	—	(2,840)
Depreciation provided during the year	6	(6,952)	(478)	(10,650)	(4,363)	(217)	—	(22,660)
Transfers		3,552	—	9,501	—	—	(13,053)	—
Exchange realignment		854	2	1,041	226	20	1,738	3,881
At 31 December 2021		202,675	592	60,633	10,009	710	69,495	344,114
At 31 December 2021:								
Cost		234,753	24,310	153,008	42,580	7,460	77,659	539,770
Accumulated depreciation and impairment		(32,078)	(23,718)	(92,375)	(32,571)	(6,750)	(8,164)	(195,656)
Net carrying amount		202,675	592	60,633	10,009	710	69,495	344,114

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Notes	Land and Buildings HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2020								
At 1 January 2020:								
Cost		118,636	51,367	124,212	37,142	7,250	81,160	419,767
Accumulated depreciation and impairment		(18,370)	(47,174)	(75,826)	(25,849)	(5,739)	(7,453)	(180,411)
Net carrying amount		100,266	4,193	48,386	11,293	1,511	73,707	239,356
At 1 January 2020, net of accumulated depreciation and impairment		100,266	4,193	48,386	11,293	1,511	73,707	239,356
Additions		1,605	940	8,415	3,982	—	70,157	85,099
Interest capitalised	7	—	—	—	—	—	3,726	3,726
Disposals		—	(1,129)	(1,258)	(399)	—	—	(2,786)
Depreciation provided during the year	6	(4,020)	(1,827)	(10,076)	(4,659)	(662)	—	(21,244)
Impairment	6	—	—	(183)	(46)	—	—	(229)
Transfers		72,468	—	1,896	219	—	(74,583)	—
Exchange realignment		10,616	23	2,855	543	58	4,822	18,917
At 31 December 2020		180,935	2,200	50,035	10,933	907	77,829	322,839
At 31 December 2020:								
Cost		204,717	40,622	130,781	39,633	7,420	85,776	508,949
Accumulated depreciation and impairment		(23,782)	(38,422)	(80,746)	(28,700)	(6,513)	(7,947)	(186,110)
Net carrying amount		180,935	2,200	50,035	10,933	907	77,829	322,839

As at 31 December 2021, certain of the Group's buildings, machinery and equipment and office equipment and furniture with an aggregate net carrying amount of approximately HK$158,870,000 (2020: HK$142,575,000) were pledged to secure bank loans granted to the Group (note 26).

During the year 2020, impairment of HK$229,000 were provided in respect of the land and buildings, machinery, office equipment and furniture with carrying value in aggregate of HK$229,000. These assets were all related to the China CCMG and have made full depreciation and the Group plans to dispose next year. By taking into account the fact that these assets would not be economically viable for their remaining life and there was no identified alternative usage for them, the directors of the Group assessed the recoverable amount of these assets were nil and made full provision on their carrying values. No impairment was provided in respect of property, plant and equipment during the year 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. INVESTMENT PROPERTIES

	Note	2021 HK$'000	2020 HK$'000
Carrying amount at 1 January		7,568	7,557
Loss from a fair value adjustment	6	(1,197)	(464)
Exchange realignment		189	475
Carrying amount at 31 December		6,560	7,568

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

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

At 31 December 2021, the Group's investment properties with a carrying amount of HK$6,560,000 (31 December 2020: Nil) were pledged as security for the loans granted to the Group (note 26).

Fair value hierarchy

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

	Fair value measurement as at 31 December 2021 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	—	6,560	—	6,560

	Fair value measurement as at 31 December 2020 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	—	7,568	—	7,568

NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 to 30 years, and no ongoing payments will be made under the terms of these land leases. Leases of machinery and equipment generally have lease terms between 3 and 5 years, while motor vehicles generally have lease terms between 2 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) Right-of-use assets

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

	Note	Leasehold Land HK$'000	Building HK$'000	Machinery and equipment HK$'000	Total HK$'000
As at 1 January 2020		71,268	31,543	18,306	121,117
Additions		—	32,584	—	32,584
Depreciation charge	6	(1,432)	(16,683)	(4,001)	(22,116)
Disposal		—	(743)	(791)	(1,534)
Exchange realignment		4,659	871	932	6,462
As at 1 January 2021		74,495	47,572	14,446	136,513
Additions		—	8,363	—	8,363
Depreciation charge	6	(1,489)	(17,446)	(3,343)	(22,278)
Disposal		—	(8,453)	—	(8,453)
Exchange realignment		2,014	400	342	2,756
As at 31 December 2021		75,020	30,436	11,445	116,901

As at 31 December 2021, certain of the Group's right-of-use assets with a carrying amount of approximately HK$37,826,000 (2020: HK$33,588,000) were pledged to secure bank loans granted to the Group (note 26)

During the year 2021 and 2020, no impairment of the Group's right-of-use assets was recognized.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

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

	Note	2021 HK$'000	2020 HK$'000
Carrying amount at 1 January		65,790	70,536
New leases		8,363	32,584
Accretion of interest recognised during the year	7	2,220	4,528
Covid-19-related rent concessions from lessors		(106)	(1,970)
Payments		(35,899)	(40,430)
Disposal		(8,643)	(1,161)
Exchange realignment		566	1,703
Carrying amount at 31 December		32,291	65,790
Analysed into:			
Current portion		13,239	31,402
Non-current portion		19,052	34,388

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

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

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

	Notes	2021 HK$'000	2020 HK$'000
Interest on lease liabilities	7	2,220	4,528
Depreciation charge of right-of-use assets	6	22,278	22,116
Expense relating to short-term leases	6	5,731	3,966
Expense relating to leases of low-value assets (included in administrative expenses)	6	308	491
Gain on disposal of right-of-use assets	6	(190)	—
Covid-19-related rent concessions from lessors		(106)	(1,970)
Total amount recognised in profit or loss		30,241	29,131

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 32(c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. LEASES (continued)

The Group as a lessor

The Group leases its investment properties (note 14) consisting of two commercial properties under operating lease arrangements. Rental income recognised by the Group during the year 2021 was HK$510,000 (2020: HK$358,000), details of which are included in note 5 to the financial statements.

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021 HK$'000	2020 HK$'000
Within one year	432	411
After one year but within two years	372	432
After two years but within three years	134	372
After three years but within four years	—	134
	938	1,349

16. GOODWILL

	2021 HK$'000	2020 HK$'000
Goodwill	155,685	155,685
Impairment	(134,692)	(67,346)
	20,993	88,339

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

	Note	2021 HK$'000	2020 HK$'000
At beginning of year		67,346	67,346
Impairment recognised during the year	6	67,346	—
At end of year		134,692	67,346

Impairment testing of goodwill

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

	31 December 2021 HK$'000	31 December 2020 HK$'000
Plantation CGU	—	67,346
Chinese herbal products CGU	13,705	13,705
SODX CGU	7,288	7,288
	20,993	88,339

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

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

	31 December 2021		
	Plantation CGU	Chinese herbal products CGU	SODX CGU
Compound annual growth rate within the Budget Period	2.7%–12.86%	5.0%	5.0%
Growth rate to extrapolate cash flows beyond the Budget Period	2.3%	2.0%	0.9%
Budget gross profit margin	10.0%–28.9%	55.4%	41.0%
Pre-tax discount rate	14.0%	16.77%	13.15%

	31 December 2020		
	Plantation CGU	Chinese herbal products CGU	SODX CGU
Compound annual growth rate within the Budget Period	12.86%	4.5%	5.0%
Growth rate to extrapolate cash flows beyond the Budget Period	3.0%	2.0%	0.9%
Budget gross profit margin	10.0%–62.2%	55.6%	44.3%
Pre-tax discount rate	13.0%	16.96%	11.7%

NOTES TO FINANCIAL STATEMENTS

31 December 2021

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Assumptions were used in the value in use calculation of each CGU as at 31 December 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

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

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

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

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

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

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

Impairment of goodwill in Plantation CGU

The growth rate to extrapolate cash flows beyond the Budget Period decreased by 0.7% and pre-tax discount rate in the preparation of the cash flow projections increased by 1.0% of Plantation CGU as at 31 December 2021 as compared with those adopted as at 31 December 2020, except for that the reduction of expected future output of raw Chinese herbs as a result of the lower level of soil fertility and sunlight. Therefore, the management of the Group made provision for impairment of goodwill of HK$67,346,000 as at 31 December 2021 according to the revised the projected cash flows in the Plantation CGU.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

17. OTHER INTANGIBLE ASSETS

	Note	Trademarks HK$'000	Patents HK$'000	Licences HK$'000	Software HK$'000	Total HK$'000
31 December 2021						
At 31 December 2020 and at 1 January 2021:						
Cost		34,507	498	1,281	30,451	66,737
Accumulated amortisation and impairment		(12,202)	(449)	(1,281)	(9,885)	(23,817)
Net carrying amount		22,305	49	—	20,566	42,920
Cost at 1 January 2021, net of accumulated amortisation		22,305	49	—	20,566	42,920
Additions		442	59	—	2,756	3,257
Amortisation provided during the year	6	(2,290)	(30)	—	(2,881)	(5,201)
Exchange realignment		—	—	—	86	86
At 31 December 2021		20,457	78	—	20,527	41,062
At 31 December 2021:						
Cost		34,950	557	1,281	33,183	69,971
Accumulated amortisation and impairment		(14,493)	(479)	(1,281)	(12,656)	(28,909)
Net carrying amount		20,457	78	—	20,527	41,062

NOTES TO FINANCIAL STATEMENTS

31 December 2021

17. OTHER INTANGIBLE ASSETS (continued)

	Note	Trademarks HK$'000	Patents HK$'000	Licences HK$'000	Software HK$'000	Total HK$'000
31 December 2020						
At 31 December 2019 and at 1 January 2020:						
Cost		33,100	498	1,281	18,743	53,622
Accumulated amortisation and impairment		(10,129)	(410)	(1,281)	(7,527)	(19,347)
Net carrying amount		22,971	88	—	11,216	34,275
Cost at 1 January 2020, net of accumulated amortisation		22,971	88	—	11,216	34,275
Additions		1,418	—	—	11,429	12,847
Amortisation provided during the year	6	(2,084)	(39)	—	(2,143)	(4,266)
Exchange realignment		—	—	—	64	64
At 31 December 2020		22,305	49	—	20,566	42,920
At 31 December 2020:						
Cost		34,507	498	1,281	30,451	66,737
Accumulated amortisation and impairment		(12,202)	(449)	(1,281)	(9,885)	(23,817)
Net carrying amount		22,305	49	—	20,566	42,920

During the year 2021, no (2020: Nil) impairment of intangible asset was recognised.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK$'000	2020 HK$'000
Life insurance policies, at fair value	18,562	18,258

The Group's financial assets at fair value through profit or loss represented the three (2020: three) life insurance policies to insure an executive director as at 31 December 2021. Under the policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for the policy and may surrender the insurance policies any time by making a written request and receive cash based on the surrender value of the policies at the date of withdrawal, which is calculated by the insurer. In the opinion of the directors, the surrender value of the policies provided by the insurance company is the best approximation of its fair value, which is categorised within Level 3 of the fair value hierarchy. The life insurance policies were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

As at 31 December 2021 and 2020, the Group's life insurance policies were pledged as security for bank facilities granted to the Group. Further details are contained in note 26 to the financial statements.

In the opinion of the directors, the Group's life insurance policies would not be surrendered within the next 12 months and were therefore classified as non-current assets.

19. INVENTORIES

	2021 HK$'000	2020 HK$'000
Raw materials	76,465	64,105
Work in progress	39,179	25,902
Finished goods	61,510	98,962
	177,154	188,969
Less: Provision	(11,115)	(8,845)
	166,039	180,124

For the year ended 31 December 2021, the write-down of inventories recognised at cost of sales amounted to HK$8,115,000 (2020: HK$2,738,000).

At 31 December 2021, the Group's inventories with a carrying amount of HK$42,858,000 (2020: HK$41,717,000) were pledged as security for the loans granted to the Group (note 26).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

20. BIOLOGICAL ASSETS

	Note	2021 HK$'000	2020 HK$'000
As at 1 January		105,110	62,513
Addition during the year		30,797	28,109
Fair value (loss)/gain on biological assets, net	6	(47,459)	20,800
Harvest during the year		(25,842)	(12,641)
Exchange realignment		2,201	6,329
		64,807	105,110
Portion classified as non-current portion		(31,048)	(95,084)
Current portion		33,759	10,026

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$25,842,000 (2020: HK$12,641,000) during the year ended 31 December 2021.

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

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

(i) the raw Chinese herbs will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;

(ii) the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as life of raw Chinese herbs;

(iii) estimated yields of raw Chinese herbs are estimated based on the amount planted, health condition, expected death rate, and production conversion rate (from the number of plants to Chinese herbs in kg) if necessary;

(iv) the expected prices and price growth rates of raw Chinese herbs are estimated based on the historical average district prices; and

(v) a market-derived discount rate of 14% is applied to the projection of the Periodic Cash Flow.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

20. 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.

21. TRADE AND BILLS RECEIVABLES

	2021 HK$'000	2020 HK$'000
Trade receivables	269,569	230,702
Bills receivable	35,689	17,590
	305,258	248,292
Less: Impairment of trade and bills receivables	(43,852)	(26,764)
	261,406	221,528

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

An ageing analysis of the trade and bills receivables as at 31 December 2021 and 2020, based on the invoice date and net of loss allowance, is as follows:

	2021 HK$'000	2020 HK$'000
Within 1 month	93,694	51,898
1 to 3 months	54,780	58,716
3 to 6 months	63,800	44,515
6 months to 1 year	39,417	41,117
Over 1 year	9,715	25,282
	261,406	221,528

NOTES TO FINANCIAL STATEMENTS

31 December 2021

21. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	Note	2021 HK$'000	2020 HK$'000
At beginning of year		26,764	17,266
Impairment losses	6	17,033	10,831
Amount written off as uncollectible		(739)	(2,919)
Exchange realignment		794	1,586
At end of year		43,852	26,764

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade and bills receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade and bills receivables using a provision matrix:

As at 31 December 2021

Group A

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.17%	7.82%	51.90%	100.00%	12.46%
Gross carrying amount (HK$'000)	129,328	48,067	9,489	16,427	203,311
Expected credit losses (HK$'000)	216	3,757	4,925	16,427	25,325

Group B

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.48%	12.33%	50.57%	100.00%	26.01%
Gross carrying amount (HK$'000)	8,186	28,314	261	7,975	44,736
Expected credit losses (HK$'000)	39	3,492	132	7,975	11,638

NOTES TO FINANCIAL STATEMENTS

31 December 2021

21. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2021 (continued)

Group C

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Expected credit loss rate	0.00%	0.00%	0.00%	100.00%	0.84%
Gross carrying amount (HK$'000)	21,925	792	—	192	22,909
Expected credit losses (HK$'000)	—	—	—	192	192

Group D

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Expected credit loss rate	2.81%	6.92%	7.43%	100.00%	19.52%
Gross carrying amount (HK$'000)	17,097	8,122	3,703	5,380	34,302
Expected credit losses (HK$'000)	480	562	275	5,380	6,697

Total

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Gross carrying amount (HK$'000)	176,536	85,295	13,453	29,974	305,258
Expected credit losses (HK$'000)	735	7,811	5,332	29,974	43,852

As at 31 December 2020

Group A

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Expected credit loss rate	0.13%	4.60%	37.37%	100.00%	8.62%
Gross carrying amount (HK$'000)	67,033	79,823	12,315	5,868	165,039
Expected credit losses (HK$'000)	86	3,674	4,602	5,868	14,230

NOTES TO FINANCIAL STATEMENTS

31 December 2021

21. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2020 (continued)

Group B

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.64%	13.13%	41.15%	100.00%	32.02%
Gross carrying amount (HK$'000)	16,168	6,886	246	9,345	32,645
Expected credit losses (HK$'000)	103	904	101	9,345	10,453

Group C

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.00%	5.60%	48.48%	100.00%	2.73%
Gross carrying amount (HK$'000)	16,732	139	66	435	17,372
Expected credit losses (HK$'000)	—	8	32	435	475

Group D

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.21%	2.28%	16.64%	100.00%	4.84%
Gross carrying amount (HK$'000)	16,352	11,945	4,364	575	33,236
Expected credit losses (HK$'000)	34	272	726	575	1,607

Total

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Gross carrying amount (HK$'000)	116,285	98,793	16,991	16,223	248,292
Expected credit losses (HK$'000)	222	4,858	5,461	16,223	26,764

At 31 December 2021, trade receivables of HK$54,775,000 (2020: HK$34,124,000) were pledged as security for the Group's bank loans (note 26).

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 HK$'000	2020 HK$'000
Prepayments	28,838	69,612
Right-of-return assets	2,411	1,967
Deposits and other receivables	36,888	41,396
	68,137	112,975
Less: Impairment allowance	(503)	(251)
	67,634	112,724
Portion classified as non-current	(5,283)	(44,087)
Current portion	62,351	68,637

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

	Note	2021 HK$'000	2020 HK$'000
At 1 January		251	236
Impairment loss recognized	6	245	—
Exchange realignment		7	15
At 31 December		503	251

The above provision for impairment of other receivables was a provision for individually impaired other receivables of HK$503,000 (2020: HK$251,000) with a carrying amount before provision of HK$503,000(2020: HK$251,000) during the year ended 31 December 2021. The Group does not hold any collateral or other credit enhancements over these balances.

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default and expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The financial assets included in the above balance were categorised in stage 1 at the year of each reporting period. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the current year, except for the default receivables, the Group estimated the expected loss rate for the other receivables is minimal.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 HK$'000	2020 HK$'000
Cash and bank balances	59,671	91,401
Time deposits	25,383	35,056
	85,054	126,457
Less: Pledged time deposits for bank loans (note 26)	(25,383)	(35,056)
Cash and cash equivalents	59,671	91,401
Denominated in RMB	31,390	41,187
Denominated in HK$	16,259	27,231
Denominated in US$	3,278	13,056
Denominated in JPY	8,603	9,800
Denominated in CAD	141	127
Cash and cash equivalents	59,671	91,401

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

24. TRADE AND BILLS PAYABLES

	2021 HK$'000	2020 HK$'000
Trade payables	116,189	122,978
Bills payables	24,490	36,366
	140,679	159,344

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

	2021 HK$'000	2020 HK$'000
Within 1 month	49,163	33,220
1 to 2 months	14,364	20,615
2 to 3 months	11,139	3,429
Over 3 months	66,013	102,080
	140,679	159,344

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

25. OTHER PAYABLES AND ACCRUALS

	Notes	2021 HK$'000	2020 HK$'000
Other payables	(a)	44,490	82,197
Accruals		26,272	31,115
Contract liabilities	(b)	10,183	9,795
Refund liabilities		7,961	5,594
Retention payable	(c)	33,062	32,181
		121,968	160,882
Portion classified as non-current	(c)	(24,157)	(50,564)
Current portion		97,811	110,318

Notes:

(a) Other payables are non-interest-bearing and have an average term of three months.

(b) Details of contract liabilities are as follows:

	31 December 2021 HK$'000	31 December 2020 HK$'000	1 January 2020 HK$'000
Short-term advances received from customers			
Sale of goods	9,868	9,480	13,786
Rendering of services	315	315	255
Total contract liabilities	10,183	9,795	14,041

Contract liabilities include short-term advances received for the sale of goods and rendering of services. The increase in contract liabilities in 2021 was mainly due to the increase in short-term advances received from customers in relation to the sale of goods and rendering of services.

(c) The non-current portion of other payables mainly represents the retention money held by the Group with respect to the Group's plants and properties under construction which will be paid in a period over twelve months from 31 December 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2021			2020		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank overdraft — secured (a)	4.25–5.25	On demand	2,163	1.85–5.25	On demand	15,591
Bank loans — secured	2.25–7.00	On demand	102,844	2.25–5.27	On demand	50,179
Bank loans and other borrowings — secured (a)	0.85–8.00	2022	200,596	0.85–9.00	2021	124,787
Bank loans — unsecured (a)	4.50	On demand	56,445	2.80–4.91	On demand	20,735
Bank loans — unsecured	4.35–5.66	2022	34,619	4.50–6.18	2021	57,537
Other borrowings — unsecured	11.08	2022	11,004	8.50	2021	10,500
			407,671			279,329
Non-current						
Bank loans and other borrowings — secured	0.85–5.73	2023–2030	66,595	0.85–8.00	2022–2030	86,754
Bank loans — unsecured	—	—	—	4.50–6.18	2022–2027	60,902
Other borrowings — unsecured	10.00–11.08	2023	25,402	7.00–10.00	2022–2023	31,336
			91,997			178,992
			499,668			458,321

	2021 HK$'000	2020 HK$'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	407,671	279,329
In the second year	34,923	20,555
In the third to fifth years, inclusive	28,563	103,070
Beyond five years	28,511	55,367
	499,668	458,321

NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Interest-bearing bank and other borrowings are denominated in:

	2021 HK$'000	2020 HK$'000
HK$	122,327	107,872
RMB	373,805	338,837
JPY	3,536	4,480
US$	—	7,132
	499,668	458,321

(a) HK Interpretation 5 "Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time ("repayment on demand clause") shall be classified in total by the borrower as current in the consolidated statement of financial position. Interest-bearing bank loans of the Group in the amount of HK$177,901,000 (2020: HK$86,505,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$50,537,000 (2020: HK$13,548,000) that is repayable after one year from the end of 2021 has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.

(b) As at 31 December 2021, the Group was not in compliance with certain loan covenants as stipulated in the agreements of the bank loans amounting to approximately HK$124,068,000. Bank loans amounting to HK$53,527,000, out of the HK$124,068,000, are repayable on demand or within 12 months and have already been accounted for as current liabilities as mentioned in note 26(a); and the remaining balance of HK$70,541,000 which are repayable beyond 12 months, have already been accounted for as current liabilities. Waivers for the breach of these covenants of the loans amounting to HK$49,794,000 have been obtained subsequent to the financial statements date.

As at 31 December 2020, the Group's bank loans amounting to approximately HK$42,873,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans would become mature within 12 months and included a repayable on demand clause as mentioned above in 26(a) which have already been classified as current liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(c) As at 31 December 2021, the Group's facilities of bank and other borrowings amounted to HK$567,400,000 (2020: HK$519,809,000), of which HK$499,668,000 (2020: HK$458,321,000) had been utilised.

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

		Carrying value	
	Notes	2021 HK$'000	2020 HK$'000
Property, plant and equipment	13	158,870	142,575
Right-of-use assets	15	37,826	33,588
Financial assets at fair value through profit or loss	18	18,562	18,258
Inventories	19	42,858	41,717
Trade and bills receivables	21	54,775	34,124
Pledged bank deposits	23	25,383	35,056
Investment Property	14	6,560	—
		344,834	305,318

(e) As at 31 December 2021, the Group's bank loans of HK$53,833,000 were under the SME Financing Guarantee Scheme (the "Scheme"), and the relevant balances were guaranteed by the Government of Hong Kong Special Administrative Region and a personal guarantee by Mr. Abraham Chan, as required under the Scheme.

27. GOVERNMENT GRANTS

	2021 HK$'000	2020 HK$'000
At 1 January	6,602	3,686
Government grants received during the year	4,894	68,321
Amounts released to the statement of profit or loss (note 5)	(8,115)	(65,799)
Exchange realignment	129	394
At 31 December	3,510	6,602
Portion classified as current liabilities	(2,336)	(2,749)
Non-current portion	1,174	3,853

NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	2021				
	Tax loss available for offsetting against future taxable profits HK$'000	Government grants HK$'000	Unrealised profit on inventories HK$'000	Accrual and provisions HK$'000	Total HK$'000
At 1 January 2021	3,218	626	983	6,464	11,291
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	(2,942)	(288)	431	1,759	(1,040)
Exchange realignment	15	13	—	204	232
Gross deferred tax assets at 31 December 2021	291	351	1,414	8,427	10,483

	2020				
	Tax loss available for offsetting against future taxable profits HK$'000	Government grants HK$'000	Unrealised profit on inventories HK$'000	Accrual and provisions HK$'000	Total HK$'000
At 1 January 2020	6,592	553	1,430	7,341	15,916
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	(3,430)	34	(447)	(1,287)	(5,130)
Exchange realignment	56	39	—	410	505
Gross deferred tax assets at 31 December 2020	3,218	626	983	6,464	11,291

NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. DEFERRED TAX (continued)

Deferred tax liabilities

	2021 Depreciation and amortisation allowance in excess of related depreciation and amortisation HK$'000
At 1 January 2021	3,235
Deferred tax charged to the statement of profit or loss during the year (note 10)	(618)
Exchange realignment	(6)
Gross deferred tax liabilities at 31 December 2021	2,611

	2020 Depreciation and amortisation allowance in excess of related depreciation and amortisation HK$'000
At 1 January 2020	6,160
Deferred tax charged to the statement of profit or loss during the year (note 10)	(2,962)
Exchange realignment	37
Gross deferred tax liabilities at 31 December 2020	3,235

NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2021 HK$'000	2020 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	10,483	11,291
Net deferred tax liabilities recognised in the consolidated statement of financial position	(2,611)	(3,235)
	7,872	8,056

Pursuant to the Corporate Income Tax Law of the People's Republic of China, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the Directors, based on the Group's expansion plan in Mainland China and the cash flow generated in Hong Kong, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. As at 31 December 2021, the amounts of temporary difference associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$119,729,000 (2020: HK$239,678,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

29. SHARE CAPITAL

Shares

	2021 HK$'000
Authorised: 50,000,000,000 ordinary shares of US$0.1 (HK$0.775) each	38,750,000
Issued and fully paid: 394,892,941 ordinary shares of US$0.1 (HK$0.775) each	306,042

	2020 HK$'000
Authorised: 50,000,000,000 ordinary shares of US$0.1 (HK$0.775) each	38,750,000
Issued and fully paid: 394,892,941 ordinary shares of US$0.1 (HK$0.775) each	306,042

NOTES TO FINANCIAL STATEMENTS

31 December 2021

29. SHARE CAPITAL (continued)

A summary of movements in the Company's share capital and share premium account are as follows:

	2020			
	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2020	263,261,961	204,028	224,484	428,512
Effect of right issue on 2 March 2020 (note a)	131,630,980	102,014	3,291	105,305
Share issue expenses	—	—	(7,257)	(7,257)
Transfer of vested shares under Share Award Scheme (note 30)	—	—	140	140
At 31 December 2020	394,892,941	306,042	220,658	526,700

	2021			
	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2021	394,892,941	306,042	220,658	526,700
Transfer of vested shares under Share Award Scheme (note 30(b))	—	—	531	531
At 31 December 2021	394,892,941	306,042	221,189	527,231

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share option scheme

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

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

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

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

On 9 May 2019 (the "Date of Grant"), the Board of the directors of the Group has resolved to grant share options to certain directors and employees of the Company, entitling them to subscribe for a total of 6,376,000 ordinary shares of the Company (the "Granted Share Options"). The exercise price and the number of shares were adjusted upon completion of the rights issue on 2 March 2020.

On 24 July 2020, 16,124,000 options were granted to five directors and certain employees of the company, entitling them to subscribe for a total of 16,124,000 shares at the exercise price of HK$0.8 per share, conditional upon the grantee accepting the grant. Among the options resolved to grant, 4 employees have not accepted the grant and out of the 16,124,000 options, 800,000 options were not granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

During the year 2021, 2 employees have resigned and 400,000 options were forfeited out of the 15,324,000 options. As a result, there were 14,924,000 outstanding options for the year ended 31 December 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) Share option scheme (continued)

The following share options were outstanding under the Option Scheme during the year:

	2021 Weighted average exercise price HK$ per share	2021 Number of options '000	2020 Weighted average exercise price HK$ per share	2020 Number of options '000
At 1 January	1.25	21,797	2.40	6,376
Adjustment during the year	2.30	(7)	—	—
Effect of rights issue (Note)	—	—	(0.10)	267
Granted during the year	—	—	0.80	15,324
Forfeited during the year	2.30	(177)	—	—
Forfeited during the year	0.80	(400)	2.30	(170)
At 31 December	1.24	21,213	1.25	21,797

Note: As a result of the completion of the Rights Issue (note 29(a)), assuming no other adjustment events under the terms and conditions of the Share Option Scheme having been triggered and pursuant to (i) the terms and conditions of Share Option Scheme; and (ii) Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules, the exercise price of the Share Options and the number of Shares which may fall to be issued upon exercise of the subscription rights attaching to the Share Options has been adjusted.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2021

Number of options	Exercise price	Vesting date	Exercise period
3,011,859	HK$2.3*	10 May 2020	From vesting date to 9 May 2029
3,011,859	HK$2.3*	10 May 2021	From vesting date to 9 May 2029
132,853	HK$2.3*	10 May 2022	From vesting date to 9 May 2029
132,853	HK$2.3*	10 May 2023	From vesting date to 9 May 2029
7,555,335	HK$0.8	23 July 2021	From vesting date to 23 July 2030
7,035,333	HK$0.8	23 July 2022	From vesting date to 23 July 2030
333,333	HK$0.8	23 July 2023	From vesting date to 23 July 2030
21,213,425			

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) Share option scheme (continued)

2020

Number of options	Exercise price	Vesting date	Exercise period
3,057,928*	HK$2.3*	10 May 2020	From vesting date to 9 May 2029
3,057,928*	HK$2.3*	10 May 2021	From vesting date to 9 May 2029
178,922*	HK$2.3*	10 May 2022	From vesting date to 9 May 2029
178,922*	HK$2.3*	10 May 2023	From vesting date to 9 May 2029
7,688,667	HK$0.8	23 July 2021	From vesting date to 23 July 2030
7,168,667	HK$0.8	23 July 2022	From vesting date to 23 July 2030
466,666	HK$0.8	23 July 2023	From vesting date to 23 July 2030
21,797,700*			

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

Details of the share option expenses during the year ended 31 December 2021 are listed as below:

	2021 HK$'000	2020 HK$'000
Share option expenses recognised during the year*	2,805	4,621
Less: Included in directors' remuneration (note 8)	(2,838)	(4,295)
Employee benefit expenses	(33)	326

As at 31 December 2021, the Company had 21,213,425 share options outstanding under the Option Scheme, which represented approximately 5.4% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 21,213,425 additional ordinary shares of the Company and additional equity amount of HK$26,401,000 (before share issue expenses).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(b) Shares held for the share award scheme

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

1. to recognise and motivate the contributions by certain Eligible Award Participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;

2. to attract suitable personnel for further development of the Group; and

3. to provide certain Eligible Award Participants with a direct economic interest in attaining a long-term relationship between the Group and certain Eligible Award Participants.

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

Shareholdings of Share Award Scheme Trust

As at 31 December 2021, the Share Award Scheme Trust held 959,335 (31 December 2020: 1,916,000) shares of the Company. During the year ended 31 December 2021, no share (2020: nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 956,665 (2020: 290,000) shares were vested on during the period.

Granted Award shares

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

Two of the Eligible Award Participants, who were granted Award Shares on 16 June 2017, have resigned during the year ended 31 December 2019, and therefore their 210,000 unvested shares of Award Shares were forfeited.

On 28 June 2021, Mr. SK Cheong (鄭善強) has been re-designated from an executive Director to a non-executive Director of the Group, and therefore his 333,335 Award Shares were forfeited during the year 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

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

Granted Award shares (continued)

Summary of the Award Shares granted is as follows:

				Number of Awarded Shares				
Date of Grant	Number of outstanding Awarded Shares as at the Date of Grant	Fair value HK$'000	Vesting Date	Vested during the prior years	Forfeited during the prior years	Vested during the current year	Forfeited during the current year	Outstanding as at 31 December 2021
16 June 2017	615,000	2,295	16 June 2018	(525,000)	(90,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2019	(290,000)	(120,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2020	(290,000)	(120,000)	—	—	—
16 June 2017	410,000	1,529	16 June 2021	—	(120,000)	(290,000)	—	—
16 June 2017	205,000	765	16 June 2022	—	(60,000)	—	—	145,000
25 August 2020	333,333	234	1 January 2021	—	—	(333,333)	—	—
25 August 2020	83,333	58	1 February 2021	—	—	(83,333)	—	—
25 August 2020	83,333	58	1 March 2021	—	—	(83,333)	—	—
25 August 2020	83,333	58	1 April 2021	—	—	(83,333)	—	—
25 August 2020	83,333	58	1 May 2021	—	—	(83,333)	—	—
25 August 2020	83,333	58	1 June 2021	—	—	—	(83,333)	—
25 August 2020	83,333	58	1 July 2021	—	—	—	(83,333)	—
25 August 2020	83,333	58	1 August 2021	—	—	—	(83,333)	—
25 August 2020	83,336	60	1 September 2021	—	—	—	(83,336)	—
	3,050,000	8,347		(1,105,000)	(510,000)	(956,665)	(333,335)	145,000

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

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

Granted Award shares (continued)

Details of the equity-settled share award expenses of the Group during the year ended 31 December 2021 are listed as below:

	2021 HK$'000	2020 HK$'000
Gross amount of recognition of share award expenses	932	1,020
Forfeited during the year	(233)	—
Net share award expenses recognised during the year	699	1,020
Less: Included in directors' remuneration (note 8)	(104)	(738)
Employee benefit expenses	595	282

31. RESERVES

Surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the companies now comprising the Group which are registered in the PRC shall appropriate a certain percentage of their net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. When the balance of this reserve fund reaches 50% of the entities' capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages. After making the appropriation to the statutory surplus reserve, the Company may also appropriate its profit for the year to the discretionary surplus reserve upon approval by the Board or the shareholders in general meetings.

Capital reserve

Capital reserve represented additional contributions made by the shareholders of the Company's subsidiaries and, in the case of an acquisition of an additional non-controlling interest of a subsidiary, the difference between the cost of acquisition and the non-controlling interest acquired.

Merger reserve

The merger reserve represented the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired and the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation undergone by the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year 2021, harvested raw Chinese herbs of HK$25,842,000 were transferred to inventories (2020: HK$10,537,000).

During the year 2021, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$8,363,000 (2020: HK$32,584,000) and HK$8,363,000 (2020: HK$32,584,000), respectively, in respect of lease arrangements for land and buildings, machinery and equipment.

During the year 2021, the Group had offset the trade receivables with trade payables of HK$7,997,000 and HK$7,997,000 respectively, in respect of the offsetting arrangements with these customers.

(b) Changes in liabilities arising from financing activities:

	Lease liabilities HK$'000	Interest Payable HK$'000	Bank loan and other borrowings HK$'000
At 1 January 2021	65,790	1,846	458,321
Changes from net financing cash flows	(35,899)	(24,807)	44,671
Interest expense	2,220	24,800	—
New leases	8,363	—	—
Disposal	(8,643)	—	—
Covid-19-related rent concessions from lessors	(106)	—	—
Exchange realignment	566	—	86,018
At 31 December 2021	32,291	1,839	589,010

	Lease liabilities HK$'000	Interest Payable HK$'000	Loans from a director HK$'000	Bank loan and other borrowings HK$'000
At 1 January 2020	70,536	3,882	15,000	455,997
Changes from net financing cash flows	(40,430)	(28,644)	(15,000)	(17,587)
Interest expense	4,528	26,608	—	—
New leases	32,584	—	—	—
Disposal	(1,161)	—	—	—
Covid-19-related rent concessions from lessors	(1,970)	—	—	—
Exchange realignment	1,703	—	—	19,911
At 31 December 2020	65,790	1,846	—	458,321

(c) Total cash outflow for leases

The cash outflow for leases was all included in the financing activities in the Group's consolidated statement of cash flows for the year ended 31 December 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

33. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2021 HK$'000	2020 HK$'000
Contracted, but not provided for:		
Buildings	28,542	22,375
Plant and machinery	1,369	1,212
	29,911	23,587

34. CONTINGENT LIABILITIES

There were no material contingent liabilities of the Group as at 31 December 2021.

35. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

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

Name of related parties	Relationship
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Director of the Company
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Director of the Company
Edtoma Corporate Services Limited ("Edtoma")	Company significantly influenced by Mr. Eddie Chan
CWCC Consultancy Limited ("CWCC")	Company significantly influenced by Mr. Eddie Chan
HerbMiners Informatics Ltd. ("HerbMiners")	Company controlled by Mr. Abraham Chan

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions during the reporting period are as follows:

	Notes	2021 HK$'000	2020 HK$'000
Repayment of a loan from a director	(i)	—	15,000
Interest expense to a director	(i)	—	107
Professional service fees	(ii)	365	572
Acquisition of intangible assets	(iii)	—	9,900
Software licence fee and IT service fee	(iv)	821	—
		1,186	25,579

Notes:

(i) On 14 March 2018, the Group entered into a loan agreement with Mr. Abraham Chan, in which Mr. Abraham Chan agreed to set up a loan facility up to HK$50 million to the Group for financing the general corporate funding requirements. The director loan was settled in the year ended 31 December 2021.

(ii) The professional service fees were paid to Edtoma and CWCC at prices mutually agreed by both parties. The Directors consider that the service charges offered by the suppliers were in line with the Group's other suppliers.

(iii) The acquisition of intangible assets representing the transfer of the titles, interests and rights of Chinese medicine management software developed by HerbMiners to the Group. The consideration for the acquisition was determined after arm's length negotiation with reference to approximately 17.8% discount of the actual cost of development of the said software developed by HerbMiners.

(iv) The software licence fee and IT service fee were paid to HerbMiners at prices mutually agreed by both parties. The Directors consider that the service charges were in line with those offered by the supplier to its other customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balance with related parties:

	Notes	2021 HK$'000	2021 Maximum amount outstanding HK$'000	2020 HK$'000	2020 Maximum amount outstanding HK$'000
Loans from a director:					
Mr. Abraham Chan	(i)	—	—	—	15,000
Amount due to a related company:					
HerbMiners	(ii)	—	—	5,900	9,900

(i) The loans from a director was unsecured, repayable on demand and bore 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. The director loan was settled in the year ended 31 December 2021.

(ii) The balance with HerbMiners was unsecured, interest-free and settled on terms of three months.

(d) As at 31 December 2021, the Group's bank loans of HK$53,833,000 were under the SME Financing Guarantee Scheme (the "Scheme"), and the relevant balances were guaranteed by the Government of Hong Kong Special Administrative Region and a personal guarantee by Mr. Abraham Chan, as required under the scheme.

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

	2021 HK$'000	2020 HK$'000
Salaries, allowances and benefits in kind	8,201	5,123
Equity-settled share award and share option expenses	2,208	4,421
Pension scheme contributions	44	60
	10,453	9,604

NOTES TO FINANCIAL STATEMENTS

31 December 2021

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2021

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	18,562	—	18,562
Trade and bills receivables	—	261,406	261,406
Financial assets included in prepayments, other receivables and other assets	—	15,264	15,264
Pledged bank deposits	—	25,383	25,383
Cash and cash equivalents	—	59,671	59,671
	18,562	361,724	380,286

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	140,679
Financial liabilities included in other payables and accruals	65,448
Lease liabilities	32,291
Interest-bearing bank and other borrowings	499,668
	738,086

NOTES TO FINANCIAL STATEMENTS

31 December 2021

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2020

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	18,258	—	18,258
Trade and bills receivables	—	221,528	221,528
Financial assets included in prepayments, other receivables and other assets	—	22,129	22,129
Pledged bank deposits	—	35,056	35,056
Cash and cash equivalents	—	91,401	91,401
	18,258	370,114	388,372

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	159,344
Financial liabilities included in other payables and accruals	83,904
Lease liabilities	65,790
Interest-bearing bank and other borrowings	458,321
Amount due to a related company	5,900
	773,259

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. TRANSFERS OF FINANCIAL ASSETS

At 31 December 2021, PuraPharm Nanning, a subsidiary of the Group, endorsed certain bills receivable accepted by a bank in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of HK$2,591,000 (2020: HK$6,604,000). The Derecognised Bills had a remaining maturity of approximately one to five months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the reporting period, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the years or cumulatively.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments in above tables in note 36 were reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, trade payables, loans from a director, amount due to a related company, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of non-current interest-bearing bank borrowings and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair value of the Group's financial asset at fair value through profit or loss is categorised within Level 3 of the fair value hierarchy which is measured based on significant unobservable inputs and has been estimated based on the surrender value of the policy as disclosed in note 18 to the financial statements. The fair value of the insurance policy is mainly affected by its surrender value as the directors expected the other unobservable inputs such as insurance risk would not have significant impact on the fair value of the insurance policy. The surrender value of the insurance policy was obtained from the insurance company without any adjustment. The directors believe that the estimated fair value and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of the investment properties was categorised within Level 2 — significant observable inputs and has been estimated based on the policies as disclosed in note 14 to the financial statements.

The fair value of the biological assets was categorised within Level 3 — significant unobservable inputs and has been estimated based on the policies as disclosed in note 20 to the financial statements.

There were no transfers of fair value measurements during the year ended 31 December 2021.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, financial assets through profit or loss and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate of 100 basis points, with all other variables held constant, of the Group's (loss)/profit before tax (through the impact on floating rate borrowings).

Increase/(decrease) in the Group's (loss)/profit before tax

	2021 HK$'000	2020 HK$'000
If decrease by 100 basis points	2,754	2,943
If increase by 100 basis points	(2,754)	(2,943)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity for the years ended 31 December 2021 and 2020 to a reasonably possible change by 5% in the HK$ exchange rates against RMB and Japanese Yen ("JPY"), with all other variables held constant, of the Group's (loss)/profit before tax due to changes in the fair values of monetary assets and liabilities.

	2021 HK$'000	2020 HK$'000
If RMB weakens against HK$ by 5%		
Decrease in profit before tax	16,679	21,841
If RMB strengthens against HK$ by 5%		
Increase in profit before tax	(16,679)	(21,841)
If JPY weakens against HK$ by 5%		
Decrease in profit before tax	(756)	(764)
If JPY strengthens against HK$ by 5%		
Increase in profit before tax	756	764

NOTES TO FINANCIAL STATEMENTS

31 December 2021

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade and bills receivables*	—	—	—	261,406	261,406
Financial assets included in prepayments, other receivables and other assets					
— Normal**	15,264	—	—	—	15,264
Pledged deposits					
— Not yet past due	25,383	—	—	—	25,383
Cash and cash equivalents					
— Not yet past due	59,671	—	—	—	59,671

NOTES TO FINANCIAL STATEMENTS

31 December 2021

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade and bills receivables*	—	—	—	221,528	221,528
Financial assets included in prepayments, other receivables and other assets					
— Normal**	22,129	—	—	—	22,129
Pledged deposits					
— Not yet past due	35,056	—	—	—	35,056
Cash and cash equivalents					
— Not yet past due	91,401	—	—	—	91,401

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO FINANCIAL STATEMENTS

31 December 2021

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and lease liabilities. Cash flows are being closely monitored on an ongoing basis.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2021					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	161,452	69,267	180,781	67,501	35,366	514,367
Trade and bills payables	—	137,568	3,111	—	—	140,679
Other payables	—	65,448	—	—	—	65,448
Lease liabilities	—	1,834	6,420	23,421	616	32,291
	161,452	274,117	190,312	90,922	35,982	752,785

	2020					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	86,504	51,276	156,326	148,592	60,199	502,897
Trade and bills payables	—	154,995	4,349	—	—	159,344
Other payables	—	83,904	—	—	—	83,904
Lease liabilities	—	7,802	18,721	36,429	8,009	70,961
Amount due to a related company	—	2,000	3,900	—	—	5,900
	86,504	299,977	183,296	185,021	68,208	823,006

NOTES TO FINANCIAL STATEMENTS

31 December 2021

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Note: As at 31 December 2021, interest-bearing bank borrowings in the amount of HK$177,901,000 (2020: HK$86,505,000) included a repayment on demand clause in the loan agreements giving the banks the unconditional right to call in the loans at any time; or were not in compliance with certain financial loan covenants and the respective cash loans would become callable, therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

Notwithstanding the above clause, the Directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the end of the reporting period, the Group's compliance with the loan covenants, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the contractual undiscounted payments as at 31 December 2021 and 2020 are as follows:

Year ended 31 December	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2021	87,178	69,507	188,002	129,285	51,970	525,942
2020	50,005	62,065	169,000	162,914	60,199	504,183

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2021.

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent. Net debt includes interest-bearing bank borrowings and loans from a director. The gearing ratios as at the end of the reporting periods were as follows:

	2021 HK$'000	2020 HK$'000
Interest-bearing bank and other borrowings	499,668	458,321
Net debt	499,668	458,321
Equity attributable to owners of the parent	401,558	511,658
Gearing ratio	1.2	0.9

NOTES TO FINANCIAL STATEMENTS

31 December 2021

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 HK$'000	2020 HK$'000
NON-CURRENT ASSETS		
Right-of-use assets	—	1,155
Total non-current assets	—	1,155
CURRENT ASSETS		
Prepayments, deposits and other receivables	429,810	447,321
Cash and cash equivalents	135	127
Total current assets	429,945	447,448
CURRENT LIABILITIES		
Other payables and accruals	684	1,460
Interest-bearing bank and other borrowings	—	10,500
Lease liabilities	—	1,197
Total current liabilities	684	13,157
NET CURRENT ASSETS	429,261	434,291
TOTAL ASSETS LESS CURRENT LIABILITIES	429,261	435,446
Net assets	429,261	435,446
EQUITY (note)		
Share capital	306,042	306,042
Shares held for share award scheme	(3,221)	(6,258)
Reserves	126,440	135,662
Total equity	429,261	435,446

NOTES TO FINANCIAL STATEMENTS

31 December 2021

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's equity is as follows:

	Share capital HK$'000	Share premium HK$'000	Shares held for share award scheme HK$'000	Reserve for share award and share option HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2020	204,028	224,484*	(7,200)	5,524*	(80,968)*	345,868
Loss for the year	—	—	—	—	(14,111)	(14,111)
Issue of shares	102,014	3,291	—	—	—	105,305
Share issue expense	—	(7,257)	—	—	—	(7,257)
Recognition of equity-settled share award expenses	—	—	—	1,020	—	1,020
Transfer of vested shares under Share Award Scheme	—	140	942	(1,082)	—	—
Recognition of equity-settled share option expenses	—	—	—	4,707	—	4,707
Forfeiting of share option	—	—	—	(86)	—	(86)
At 31 December 2020 and at 1 January 2021	306,042	220,658*	(6,258)	10,083*	(95,079)*	435,446
Loss for the year	—	—	—	—	(9,688)	(9,688)
Recognition of equity-settled share award expenses	—	—	—	932	—	932
Transfer of vested shares under Share Award Scheme	—	531	3,037	(3,568)	—	—
Recognition of equity-settled share option expenses	—	—	—	3,218	—	3,218
Forfeiting of share award under Share Award Scheme	—	—	—	(233)	—	(233)
Forfeiting of share option	—	—	—	(414)	—	(414)
At 31 December 2021	306,042	221,189*	(3,221)	10,018*	(104,767)*	429,261

* These reserve accounts comprise the reserves of HK$126,440,000 (2020: HK$135,662,000) in the statement of financial position of the Company.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 29 March 2022.

PARTICULARS OF PROPERTIES

31 December 2021

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
No. 111, Level 1, Unit 2, A8, Greenland Central Plaza, Qingxiu District, Nanning, China	Clinic	Medium term lease	100%
No. A-101, Greenland Huadu International, 39 Pingle Avenue, Liangqing District, Nanning, China	Clinic	Medium term lease	100%

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2021 HK$'000	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000
RESULTS					
REVENUE	659,592	601,815	695,879	745,503	591,566
Cost of sales	(236,239)	(231,866)	(297,040)	(290,603)	(195,708)
Gross profit	423,353	369,949	398,839	454,900	395,858
Other income and gains	12,502	94,727	17,467	49,615	31,162
Selling and distribution expenses	(220,006)	(210,539)	(226,212)	(229,995)	(191,753)
Administrative expenses	(168,451)	(153,457)	(228,482)	(217,026)	(206,987)
Impairment loss on property, plant and equipment	—	(229)	(19,063)	—	—
Impairment loss on right-of-use assets	—	—	(22,380)	—	—
Impairment loss on goodwill	(67,346)	—	(67,346)	—	—
Impairment loss on financial assets, net	(17,278)	(10,831)	(5,391)	—	—
Other expenses	(52,939)	(22,573)	(36,379)	(9,084)	(1,082)
Finance costs	(27,027)	(26,830)	(27,203)	(21,879)	(16,867)
(LOSS)/PROFIT BEFORE TAX	(117,192)	40,217	(216,150)	26,531	10,331
Tax	(4,685)	(8,507)	(11,108)	(5,725)	(8,442)
(LOSS)/PROFIT FOR THE YEAR	(121,877)	31,710	(227,258)	20,806	1,889
Attributable to:					
Owners of the parent	(121,877)	31,710	(227,258)	20,806	1,889

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2021 HK$'000	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000
TOTAL ASSETS	1,205,863	1,374,577	1,222,242	1,333,103	1,293,977
TOTAL LIABILITIES	(804,305)	(862,919)	(860,119)	(770,884)	(744,895)
	401,558	511,658	362,123	562,219	549,082

PuraPharm®

Chinese Medicine Modernized

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