PuraPharm

PuraPharm Corporation Limited 培力控股有限公司

Stock code 股票代號：1498

ANNUAL REPORT 年度報告

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CORPORATE INFORMATION

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chan Yu Ling, Abraham *(Chairman)*
Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)*
Mr. Chan Kin Man, Eddie
(re-designated as Executive director from Non-executive director on 15 November 2017)
Mr. Chan Lung Sang
Ms. Man Yee Wai, Viola

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

Mr. Ho Kwok Wah, George *(Chairman)*
Mr. Chan Kin Man, Eddie (resigned as member of audit committee on 15 November 2017)
Dr. Chan Kin Keung, Eugene (appointed as member of audit committee on 15 November 2017)
Dr. Leung Lim Kin, Simon

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

SCIENTIFIC ADVISORY COMMITTEE

Prof. Paul Vanhoutte *(Chairman)*
Prof. Rudolf Bauer
Mr. Chan Yu Ling, Abraham
(subsequently ceased as member of Scientific Advisory Committee upon completion of appointment term of three years on 28 February 2018)
Prof. Piu Chan
Prof. Peter Hylands
Prof. Liang Song Ming
Mr. Lin Jinn Sin
Prof. Bruce Robinson

COMPANY SECRETARY

Mr. Lau Ka Kuen
(appointed on 1 February 2018)
Mr. Cheng Hok Kai, Frederick
(resigned on 1 February 2018)

AUTHORIZED REPRESENTATIVES

Mr. Chan Yu Ling, Abraham
Mr. Lau Ka Kuen
(appointed on 1 February 2018)
Mr. Cheng Hok Kai, Frederick
(resigned on 1 February 2018)

INVESTOR RELATIONS

Mr. Lau Ka Kuen
(appointed on 1 February 2018)
Mr. Cheng Hok Kai, Frederick
(resigned on 1 February 2018)

AUDITOR

Ernst & Young
Certified Public Accountants

LEGAL ADVISOR

Sidley Austin (As to Hong Kong law)
Appleby (As to Cayman Islands law)

REGISTERED OFFICE

Offshore Incorporations (Cayman) Limited
P. O. Box 31119
Grand Pavilion,
Hibiscus Way,
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 4002, Jardine House
1 Connaught Place, Central
Hong Kong

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

Estera Trust (Cayman) Limited
Clifton House, 75 Fort Street
P. O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

SHARE INFORMATION

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

COMPANY'S WEBSITE

www.purapharm.com

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

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GEA
GEA Process Engineering
MOBILE MINOR™
GEA Niro

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

From left to right: Mr. Chan Kin Man, Eddie (陳健文), Mr. Chan Lung Sang (陳隆生), Dr. Tsoi Kam Biu, Alvin (蔡鑑彪), Ms. Man Yee Wai, Viola (文綺慧), Mr. Chan Yu Ling, Abraham (陳宇齡), Prof. Tsui Lap Chee (徐立之), Dr. Chan Kin Keung, Eugene (陳建強), Mr. Ho Kwok Wah, George (何國華), Dr. Leung Lim Kin, Simon (梁念堅).

BOARD OF DIRECTORS

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 57, is the founder, Chairman, Chief Executive Officer and Executive Director. He is responsible for the overall strategic planning and operations of the Group's business. He also leads the Group's research development and technological development functions. Mr. Chan has over 19 years of extensive experience in Chinese medicine and healthcare products. He is a member of the Chinese Medicine Development Committee. In 2016, he was awarded Directors of The Year Awards 2016 by The Hong Kong Institute of Directors. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's Degree in Applied Sciences. He was accredited as a Chartered Engineer in the United Kingdom and was accredited as a Professional Engineer in Ontario, Canada. He is the spouse of Ms. Man Yee Wai, Viola, an Executive Director.

Dr. Tsoi Kam Biu, Alvin (蔡鑑彪), aged 61, is an Executive Director and Vice Chairman. He is responsible for the overall strategic planning of the Group's business. Dr. Tsoi has over 23 years of experience in sales management and Chinese medicine and healthcare products. Dr. Tsoi is a consultant in The Hong Kong T. C. M. Orthopaedic and Traumatic Association Ltd. He is also an Honorary President and a consultant of The Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited. Dr. Tsoi is a listed Chinese Medicine Practitioner under the Chinese Medicine Practitioners Board of the Chinese Medicine Council of Hong Kong. Dr. Tsoi received his Doctorate Degree in Dental Medicine from De Ocampo Memorial College in the Philippines and obtained a Bachelor's Degree in Chinese Medicine from the Chinese Medical Research Institute of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited.

Mr. Chan Kin Man, Eddie (陳健文), aged 57, was formerly a Non-Executive Director of the Group and re-designated as Executive Director by the Board on 15 November 2017. Mr. Chan has over 30 years of extensive experience in professional accounting and taxation services. He is the founder and senior partner in CWCC, an accounting firm, to oversee the divisions of tax, corporate secretarial and China business advisory services. Mr. Chan was accredited as a Certified Public Accountant (practising) and a fellow member by the Hong Kong Institute of Certified Public Accountants in January 1990 and July 1993 respectively, a Chartered Certified Accountant (practising) and a fellow member of the Association of Chartered Certified Accountants in July 2004 and January 2001 respectively and a fellow member of The Institute of Chartered Accountants in England and Wales in December 2017. He received a higher diploma in accountancy from the Hong Kong Polytechnic University.

Mr. Chan Lung Sang (陳隆生), aged 66, is an Executive Director. He is responsible for the Nong's clinic operations and development in the Hong Kong, PRC and overseas market, as well as the sales and marketing of Nong's CCMG products and Chinese medicine healthcare products of the Group. He joined the Group as a General Manager in 2003. From 1992 to 2001, Mr. Chan held various positions in A.S. Watson & Co., Ltd. and was appointed General Manager to oversee the Guangzhou business of Watson's water in 1999. In 2011, Mr. Chan was appointed as the Honorary President of The H.K.T.C.M. Orthopaedic and Traumatic Association Ltd. and in 2012, he was appointed as a consultant of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited. Mr. Chan obtained a Master's Degree in Business Administration from Janus University in the U.S. through distance learning.

Ms. Man Yee Wai, Viola (文綺慧), age 52, 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 a member of the Council of the Education University of Hong Kong. Ms. Man sits on the Hospital Governing Committees of five hospitals under the Hong Kong Hospital Authority. She is a member of the HK Basic Law Promotion Steering Committee, a member of the Betting and Lotteries Commission and a fellow of Hong Kong Institute of Directors. 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.

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

Independent Non-executive Directors

Dr. Chan Kin Keung, Eugene (陳建強), aged 54, is an Independent Non-Executive Director. He is an Honorary Clinical Associate Professor of the Faculty of Medicine of The Chinese University of Hong Kong, a Visiting Professor of the Jinan University in the PRC, the President of the Association of Hong Kong Professionals. Dr. Chan has been appointed as a member of the Board of Advisors of Radio Television Hong Kong since 2010, and was appointed the Chairman of the Board in 2016; a member of the Advisory Committee of School of Chinese Medicine of Hong Kong Baptist University, a member of Citizens Advisory Committee on Community Relations of Independent Commission Against Corruption, a member of Independent Police Complaints Council and a member of the Appeal Board on Public Meetings and Procession since 2013; and a member of the Quality Education Fund Steering Committee since 2015. He was appointed as the non-official Justice of the Peace by the Chief Executive of Hong Kong SAR. In 2016, he was awarded the Bronze Bauhinia Star by the Government of Hong Kong. He has obtained a Bachelor's Degree in Dental Surgery from the University of Adelaide in Australia and received a Fellowship Ad Eundem from the Royal College of Surgeons of England.

Mr. Ho Kwok Wah, George (何國華), aged 59, is an Independent Non-Executive Director. Mr. Ho has over 20 years of extensive experience in accounting, auditing and financial management. He is the Proprietor of George K. W. Ho & Co., Certified Public Accountants, 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 Holdings Limited (stock code: 3886), and Rykadan Capital Limited (stock code: 2288). He was awarded Medal of Honour (MH) by the government of HKSAR 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 63, is an Independent Non-Executive Director. Dr. Leung has more than 30 years of extensive experience in both the information technology and telecommunications industries. Dr. Leung is currently a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business, University of Western Ontario, where he is primarily responsible for advising the school on its mission and strategy in Asia. He is also currently a member of the College Council of Tung Wah College, where he is primarily responsible for determining key governance issues. In 2005, he was appointed as the president of Motorola Asia-Pacific. Since 2008, Dr. Leung has been the Chief Executive Officer of Microsoft Greater China region. From 2009 to 2010, he was the Governor of the Upper Canada College. In 2012, Dr. Leung was appointed as Chief Executive Officer of Harrow International Management Services Limited. Since March 2015, Dr. Leung is appointed as the Vice Chairman and Executive Director of NetDragon Websoft Holdings Limited and the Chairman of Elernity Limited, 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 67, 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 China NT Pharma Group Company Limited (stock code: 1011), and Hang Lung Group Limited (stock code: 0010), respectively. 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 15 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..

SCIENTIFIC ADVISORY

Prof. Paul Vanhoutte, is Chairman of the Scientific Advisory Committee. Prof. Vanhoutte is Professor in the Department of Pharmacology & Pharmacy and Honorary Professor of the Department of Anaesthesiology, the University of Hong Kong. Prof. Vanhoutte has written three theses. He has co-authored or edited 36 books. He has published 678 original research papers, and 578 editorials, reviews or chapters in books. His major scientific contribution has been to appreciate and analyse the importance of endothelial cells in the control of the underlying vascular smooth muscle in vascular health and disease, and to highlight the complexity of that regulation. Prof. Vanhoutte is a Highly Cited Researcher (ISI) in three categories: Biology & Chemistry, Pharmacology, and Clinical Medicine. His current h-index is 138.

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 25 years. He has published 350 original publications, reviews and book chapters.

Mr. Chan Yu Ling, Abraham is the founder, Chairman, Chief Executive Officer and Executive Director of the Group. He resigned as member of Scientific Advisory Committee on 28 February 2018. Please refer to page 8 of this annual report for further details on the biography of Mr. Chan.

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

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. Peter Hylands, is the Head of Institute of Pharmaceutical Science of King's College London, the United Kingdom. He has extensive experience in natural medicines and natural product research and development. His current research emphasises the application of chemometrics and emerging biotechnologies to the problems of standardisation and quality control of plant medicines.

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.

Mr. Lin Jinn Sin (林錦心), is a retired member of the IBM Academy of Technology, which comprises of top IBM scientists and engineers around the world, as well as a retired member of the IBM Technology Council responsible for advising IBM top management on global technology trends and directions. He has been heavily involved in the information technology industry, particularly in public sector as well as technology services. Mr. Lin is an evangelist in new businesses and new technologies, having initiated many successful technology campaigns that established IBM as the market leader in key IT segments. He had led major initiatives on national information infrastructures, electronic commerce, e-government, and internet in many Asia Pacific as well as emerging market countries.

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.

Senior Management

Mr. Chan Chun Fai, Joe (陳振輝), aged 41, is the Supply Chain Director. He is primarily responsible for the Group supply chain management, customer services and oversee the development of Nong's Clinic. Mr. Chan joined the Group in December 2015 as Regional Supply Chain Manager. Prior to joining the Group, Mr. Chan was the Manager, Sales Administration of Bosch & Siemens Home Appliance Ltd., where he was primarily responsible for the logistics, customer services and sales Operation. Mr. Chan received a Bachelor's Degree in Business Administration from The University of Edinburgh, Great Britain in 2002.

Mr. He Ding Xiang (賀定翔), aged 52, is the General Manager, Guizhou Operations and Herbs Planting, Herbal Seeds and Seedlings. He is responsible for the herbs planting of Chinese medicine and projects of herbal seed and seedling plantation. Mr. He joined the Group in March 2017. Mr. He has over 19 years of experience in the plantation of raw Chinese herbs industry. Prior to joining the Group, in July 2002, Mr. He founded Guizhou Changhao Chinese Medicine Development Co., Ltd. (貴州昌昊中藥發展有限公司), a company principally engaged in plantation and trading of raw Chinese herbs, and manufacturing and sale of TCM decoction pieces, and has been its General Manager since then. Mr. He has obtained several provincial and national research awards. Mr. He is the Director of Research Center of national joint engineering of medicinal plant breeding in Southwest China (西南地區藥用植物繁育國家地方聯合工程研究中心), the Vice President of the China Natural Resources Institute of Traditional Chinese Medicine and Natural Medicines Resources Committee (中國自然資源學會天然藥物資源專業委員會), the Vice President of the China Association of Traditional Chinese Medicine Seeds and Seedlings Professional Committee (中國中藥協會中藥材種子種苗專業委員會), the Vice President of the China Association of Traditional Chinese Medicine Plantation and Breeding Professional Committee (中國中藥協會中藥材種植養殖專業委員會), the Vice President of China Association of Traditional Chinese Medicine Traceability system Professional Committee (中國中藥協會中藥材可追溯體系專業委員會), the Executive Director of the Chinese Society of Traditional Chinese Medicine Resources Branch (中華中醫藥學會中藥資源學分會), the Executive Director of the Forest Management Committee of China Forestry Management Association (中國林業經營協會森林藥材專業委員會) and the Director of Chinese Medicine Culture Research Association Miao Dong medicine culture Branch (中國藥文化研究會苗侗藥文化分會). Mr. He obtained his Bachelor's Degree in Chinese medicine from the Guiyang Traditional Chinese Medicine College (貴陽中醫學院) in 1987.

Ms. Ho Yuk Chun (何玉珍), aged 50, 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.

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

Mr. Lam Kin Man Patrick (林健文), aged 57, is the Chief Production and Information Officer. He is responsible for managing the production department and the information technology department as well as providing technical and strategic advice to the Group's management on information technology aspects. Mr. Lam joined the Group in October 2015. Prior to joining the Group, from 1998 to 2015, Mr. Lam was the Director and later as the Vice President at SAE Magnetics (HK) Ltd., a manufacturer of magnetic recording heads for hard disk drives being used in computers and in consumer electronics, where he was primarily responsible for establishing information technology strategy for the company and leading system implementation. He received a Bachelor's Degree in Applied Science in 1981 and a Master Degree in Engineering in 1984 from the University of Toronto in Canada, respectively.

Mr. Lau Ka Kuen (劉家權), aged 36, is the Group Financial Controller and appointed as Company Secretary on 1 February 2018. He joined the Group in 2013 and is responsible for the day-to-day operations of the finance and accounting department. Prior to joining the Group from 2005 to 2011, Mr. Lau was the staff accountant, associate, senior auditor and later on an audit manager in Deloitte Touche Tohmatsu, Hong Kong, a certified public accounting firm in Hong Kong, where he was primarily responsible for audit of companies listed on the Stock Exchange. Mr. Lau was accredited as a chartered public accountant by the Hong Kong Institute of Public Accountants in 2007 and a chartered financial analyst by the Chartered Financial Analyst Institute in 2014. He obtained a Bachelor's Degree in business administration in finance and information system from the Hong Kong University of Science and Technology in 2005.

Ms. Li Wai Shan (李慧珊), aged 38, is the Chief Financial and Operating Officer. She is responsible for the Group's financial reporting and financial management, and Nong's Clinic operation. Ms. Li joined the Group in August 2010 as Financial Controller. Prior to joining the Group, Ms. Li was a Senior Audit Manager at Ernst & Young, a certified public accounting firm in Hong Kong, where she was primarily responsible for audit and assurance service. Ms. Li was accredited as a Certified Public Accountant by the Hong Kong Institute of Certified Public Accountants in October 2005. She received a Bachelor's Degree in Accounting from the Hong Kong University of Science and Technology in 2001.

Dr. Norimoto Hisayoshi (範本文哲), aged 48, is the Chief R&D Officer cum General Manager, PuraPharm Japan Corporation. He is primarily responsible for the management of group R&D, operation of PuraPharm Japan Corporation and the health products development, manufacture and sale through the Group's factory based in Osaka, Japan. Dr. Norimoto joined the Group in March 2016 as General Manager of PuraPharm Japan Corporation. Prior to joining the Group, from 2001 to 2016, Dr. Norimoto was head of R&D at Kampo Research Labs of Kracie Pharma, Ltd, one of biggest Kampo pharmaceutical manufacturer in Japan, where he was primarily responsible for overseeing its pharmacological study, drug discovery and new products development. Dr. Norimoto received a Master's Degree and Ph.D. in pharmaceutical science from the National Toyama Medical and Pharmaceutical University, Japan in 1998 and 2001, respectively.

Mr. Shi Gang (石鋼), aged 62, 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 CFDA 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.

Ms. Tang Yumei (唐玉梅), aged 42, is the General Manager of production and operations in the PRC. She is responsible for the management of daily production. Ms. Tang joined our Group in 1998 and worked at various positions such as laboratory technician at the quality control division, a technician and Assistant Manager at the technology division, Manager at the production division and plant manager of our Group, where she was primarily responsible for production and quality management. Ms. Tang received a Bachelor's Degree in Chinese medicine from the Guangxi University of Chinese Medicine (廣西中醫藥大學) (formerly known as Guangxi Institute of Chinese Medicine (廣西中醫學院)) in July 1998 and a Master's Degree in Chinese medicine from the Guangxi University of Chinese Medicine (廣西中醫藥大學) (formerly known as Guangxi Institute of Chinese Medicine (廣西中醫學院)) in July 2005.

Mr. Yau Fook Wing, Edward (邱福榮), aged 35, is the Production Compliance and Regulatory Affairs Director. He is responsible for the Quality Assurance and Quality Control functions of the manufacturing facility as well as the Regulatory Affairs function which covers Hong Kong, China and Overseas. Mr. Yau joined the company since August 2016 from Bayer Healthcare. He graduated from The University of Auckland with a degree in Pharmacy in 2006 and further received a Master of Science in Clinical Pharmacy from the University of Sunderland in 2017. He has also received a Postgraduate Certificate in Chinese Medicine from The University of Hong Kong School of Professional and Continuing Education in 2011. In his career, he had assumed various positions in quality, production, regulatory affairs and medical affairs in various pharmaceutical companies, and had experience working as the Authorized Person of GMP manufacturing facilities. Mr. Yau is a Registered Pharmacist and a Registered Authorized Person in Hong Kong. He takes an active role in the pharmaceutical and Chinese Medicines industries, being the current Honorary Secretary of The Pharmaceutical Society of Hong Kong and the Vice President of The Hong Kong Society of Chinese Medicines. In 2017 the Chinese Medicine Council of Hong Kong appointed him as an Alternate Member of the Chinese Medicines Committee. He was appointed by the Pharmacy and Poisons Board to be a Member of the Pharmacy and Poisons (Listed Sellers of Poisons) Committee from 2018.

CORPORATE MILESTONES

PuraPharm Corporation Limited - 2017 Annual Report

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 ("CCMG") combination formulation research project to review and advise on the use of CCMG combo formulae products in China.
2004	•	The Group was selected as one of the six pilot manufacturers and also the only non-PRC company that is licensed by the China Food and Drug Administration (the "CFDA") to manufacture and sell CCMG products in China.
	•	The Group became a CCMG product supplier of the majority of Hong Kong hospitals and healthcare institutions with Traditional Chinese Medicine ("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 United States Pharmacopoeia ("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 ("GMP") certifications from the Australia Therapeutic Goods Administration ("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 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 operates the first Nong's® (農本方®) clinic at 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 commence operations of the first private integrated Chinese and western medical centre for mammary gland disease in Hong Kong which is 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.

CHAIRMAN'S STATEMENT

PuraPharm Corporation Limited - 2017 Annual Report


Kan Herb
COMPANY

CHAIRMAN'S STATEMENT

Dear Shareholders,

The China market of the Concentrated Chinese Medicine Granules ("CCMG") continues to be challenging with keen price competition. In view of the keen competition in the China market, we have revamped our strategy by focusing on business development in selected regions of China and strengthening the support to distributors and hospitals. The Group's sales of CCMG in China indicates steady growth in the early 2018.

PROSPECTS

The Group's dedication to ensure a consistently stable supply of high-quality raw Chinese herbs at a steady low cost was realized by the completion of the acquisition of a Chinese herbs plantation business in Guizhou province in April 2017. One of the current expansion plans and business strategies of the Group is to expand into the business of Traditional Chinese Medicine ("TCM") decoction pieces, an area that is highly complementary to its existing CCMG business. The acquisition of the plantation business at Guizhou allows the Group to enter into the TCM decoction pieces industry. The vertical integration to secure a stable supply of upstream raw Chinese herbs from the origin provides the Group with a complete and optimised product mix including TCM decoction pieces, the Group's existing CCMG and over-the-counter Chinese healthcare products, which greatly improves the overall competitiveness of the Group.

In March 2017, the Group acquired K'an Herb Company Inc., a U.S. company with over 25 years experience in the manufacturing and sales of Chinese herbal formulas to distributors and healthcare practitioners in U.S. and Europe. The strategic acquisition of an established Chinese medicine company in the U.S., with an already strong local distribution network of licensed acupuncturists, is very much in line with PuraPharm's mission of internationalizing Chinese medicine. The acquisition will enable the Group to expand its operation in the US market, which in turn will become an important growth driver. Going forward, the Group will continue to promote modernisation of Chinese medicine such that it is more easily accepted by western countries, and enhance the brand awareness of both PuraPharm® and Nong's® to capture the huge demand for Chinese medicine at home and abroad.

In July 2017, the Group opened its first-ever Nong's Chinese Medicine Clinic in Mainland China. The Group obtained the Certificate for Medical Institutions to Practice from the National Health and Family Planning Commission of Guangxi Zhuang Autonomous Region, and is the first Hong Kong-funded medical institution to be granted approval to operate in Guangxi under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). The Group intends to speed up its pace in opening Nong's® Chinese medicine clinics in Mainland China by capitalising on its extensive experience in Chinese medicine clinics operation and providing unique Chinese medicine consultation, diagnosis and various treatment services, as well as applying healthcare and medical big data to deliver advances in Chinese medicine diagnosis and treatment services to local residents. As at the date of this report, the Group operates 69 Nong's® (農本方®) clinics and continues to be the market leader in CCMG product market as well as the largest Chinese medicine clinic chain in Hong Kong.

Furthermore, in August 2017, the Group acquired SODX Co., Ltd., a company certified by the Japanese Institute for Health Food Standards as a Good Manufacturing Practice ("GMP") health products manufacturer in Japan. The acquisition will provide the Group with a cost and time effective means of developing its health food business, leveraging on Japanese expertise and resources. This newly acquired manufacturing plant in Japan serves as a pilot factory to transfer the latest technological know-how from Japan to further improve the product quality and production efficiency of the Group's Chinese healthcare products. The pilot factory also acts as the Group's new product development centre for business expansion.

To fuel future growth, the Group continues to strengthen its leading position in the CCMG product market in Hong Kong and strategicly expand its presence in Mainland China. In addition, the Group's plans to launch more Nong's® (農本方®) Chinese medicine clinics carrying a modern image targeting towards the young executives and professionals in Mainland China will further enhance the professionalism of the Nong's® branding as well as the overall PuraPharm® corporate image.

APPRECIATION

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

By Order of the Board

Chan Yu Ling, Abraham
Chairman
Hong Kong, 26 March 2018

CORPORATE PROFILE

PuraPharm Corporation Limited - 2017 Annual Report

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 recognized 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 with a market share of 70% and also the largest Chinese medicine clinic chain in Hong Kong.

Since its founding 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 as well as the TGA standards — the latter being one of the strictest certification standards in the world. 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®) 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.

STATE-OF-THE ART PRODUCTION FACILITY

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, Australia, 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.

PILOT FACTORY AT JAPAN

To further improve product quality and production efficiency, the Group acquired SODX, a Japanese company owns health food production plant at Japan, to transfer latest technology know-how from Japan. The pilot factory, certified with Health Food GMP, locates at 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 includes anti-oxidants, fermented health food as well as health food developed from propolis.

PRODUCTS AND SERVICES OVERVIEW

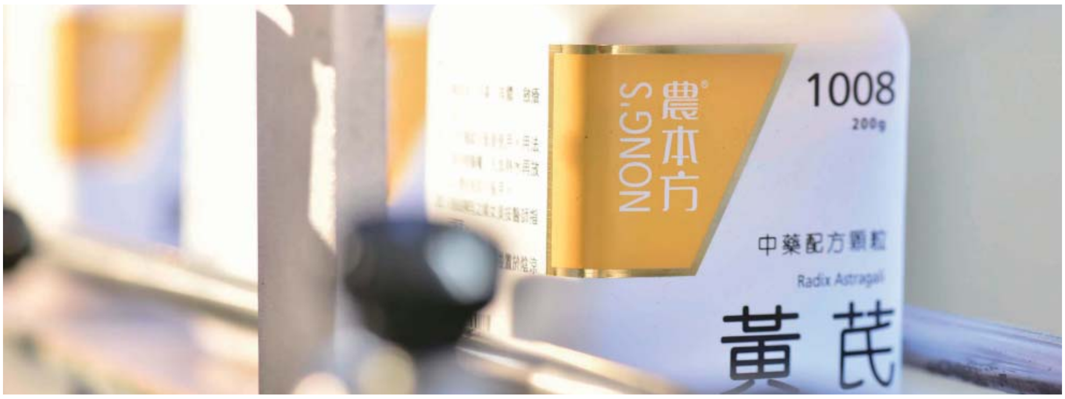
PuraPharm Corporation Limited - 2017 Annual Report

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 modernization and internationalization 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 modernization 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 modernized 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 modernized extraction and concentration technologies to replicate the traditional method of preparing medicinal decoction. Standardized 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.

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**® 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 recognized 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.

KAN HERB PRODUCTS

In March 2017, the Group acquired KAN. The strategic acquisition of the healthcare products company in the U.S., which is in line with PuraPharm's core value of Chinese medicine modernised and internationalised. KAN offers over 300 products and extensive herbal formula line which includes:

KAN Traditional

KAN Herbals

KAN Essentials

KAN Chinese Modular Solutions

KAN Genrtle Warriors

KAN Jade Moon

KAN MycoHerbs

Quality Assurance from Start to Finish: Manufactured Exclusively in the USA

At KAN, we assume responsibility for every level of the manufacturing process. Meticulous about the efficacy, quality and safety of every proprietary product, Kan Herb manufactures its products at our facilities in California, in compliance with GMP. We control all phases of the production process, from procurement and testing of raw ingredients to the manufacturing and packaging of our formulas.

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

農本方 NONG'S
中醫門診
Chinese Medicine Clinic

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 modernized 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 modernized 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's 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, organization of patients' medical records, medical diagnosis, prescription processing and inventory management to CCMG prescription dispensation.

- All medical records are computerized for easy retrieval.

MANAGEMENT DISCUSSION AND ANALYSIS

PuraPharm Corporation Limited - 2017 Annual Report


NONG'S
農本方

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change	
	2017	2016		
	HK$'000	HK$'000	HK$'000	%
Revenue				
— China CCMG	221,526	269,283	(47,757)	(17.7)
— Hong Kong CCMG	180,987	166,622	14,365	8.6
— Chinese healthcare products	85,120	47,093	38,027	80.7
— Nong's ® (農本方)® Chinese medicine clinics	77,565	52,988	24,577	46.4
— Plantation	26,368	–	26,368	N/A
	591,566	535,986	55,580	10.4
Gross profit	395,858	348,804	47,054	13.5
Profit for the year	1,889	32,162	(30,273)	(94.1)
Key profitability ratio				
Gross profit ratio	66.9%	65.1%		
Profit margin ratio	0.3%	6.0%		

FINANCE REVIEW

Sales performance

	Year ended 31 December				
	2017		2016		
	Revenue HK$000	% of total	Revenue HK$000	% of total	Change
China CCMG	221,526	37.4%	269,283	50.2%	(17.7%)
Hong Kong CCMG	180,987	30.6%	166,622	31.1%	8.6%
Chinese Healthcare products	85,120	14.4%	47,093	8.8%	80.7%
Nong's® (農本方)® Chinese medicine clinics	77,565	13.1%	52,988	9.9%	46.4%
Plantation	26,368	4.5%	–	–	N/A
Total	591,566	100.0%	535,986	100.0%	10.4%

The Group's revenue for the year ended 31 December 2017 was HK$591.6 million, representing an increase of HK$55.6 million or 10.4% compared to HK$536.0 million in last year. The revenue growth was mainly attributable to (i) the moderate growth of the Group's CCMG products in Hong Kong market, (ii) fast expansion of the Group's Nong's® (農本方®) Chinese medicine clinics in Hong Kong, and (iii) the revenue contribution of HK$61.5 million in aggregate from the newly acquired plantation business in Guizhou, Chinese herbal products business in U.S. and health food products business in Japan.

China CCMG

For the year ended 31 December 2017, the sales of CCMG products in China was HK$221.5 million, representing a decrease of HK$47.8 million or 17.7% compared to HK$269.3 million in last year. In light of the uncertainties arising from the potential liberalisation of the CCMG market in China, the Group ceased to provide bulk purchase rebates to its PRC distributors, which contributed to the reduction in their purchase of CCMG products from the Group in the fourth quarter of 2017, which normally is the peak season for the Group's China CCMG segment. As a result, the sales of CCMG in China recorded a decline for the year ended 31 December 2017.

To mitigate the risk of lower sales growth to the distributors influenced by the impact of "Two-Invoice System" policy implemented in the PRC pharmaceutical industry in 2016, the Group had restructured its sales force and resource to be more focus on the direct sales customers in the target regions of Mainland China since 2016. As a result of such direct sales focus strategy, the revenue growth for the year ended 31 December 2017 recorded more than 40% revenue growth to the direct sales customers comparing to last year. The revenue contribution from the sales to direct sales customers accounted for more than 60% of the total China CCMG sales due to the combined effect of revenue growth of direct sales customers and decline in distributorship sales.

HK CCMG

The Group continued to maintain its leading market position in Hong Kong and recorded a steady growth of revenue from the sales of CCMG products to its customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the year ended 31 December 2017, the direct sales of CCMG products in Hong Kong was HK$181.0 million, representing an increase of HK$14.4 million or 8.6% compared to HK$166.6 million in last year. The growth was mainly attributable to the increased demand from the hospitals and increase in number of private Chinese medicine practitioners in our customer base.

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

During the year ended 31 December 2017, the sales of CCMG products and provision of Chinese medical diagnostic services from the Group's Nong's® (農本方®) Chinese medicine clinics generated revenue of HK$77.6 million in aggregate, representing an increase of HK$24.6 million or 46.4% compared to HK$53.0 million in last year, which was mainly attributable to the fast expansion of the Nong's® (農本方®) Chinese medicine clinics network, from 50 clinics as at 31 December 2016 to 69 clinics as at 31 December 2017. The Group continues to be the largest TCM clinic chain in Hong Kong.

According to the Law of the People's Republic of China on Traditional Chinese Medicine《中華人民共和國中醫藥法》, which took effective in 1 July 2017, enterprises and Chinese medicine practitioners are encouraged to setup private clinics. The Group believes the new policy will complement its clinics expansion plan in China.

In July 2017, the Group's first Nong's® (農本方®) Chinese medicine clinic in China commenced business. The clinic is located in Nanning, Guangxi Zhuang Autonomous Region, and is the first Hong Kong-funded medical institution approved to operate in Guangxi under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). The Group's second China Nong's® (農本方®) Chinese medicine clinic under CEPA locating in Shanghai is in setup stage, and is expected to commence business in the second quarter of 2018.

During the year ended 31 December 2017, the Group has purchased three properties in Nanning, Guangxi Zhuang Autonomous Region, intending to be used for the business of clinic operation. Two of the clinic properties are under renovation and expected to commence business in the second quarter of 2018.

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

Chinese healthcare products

During the year ended 31 December 2017, revenue from sales of Chinese healthcare products was HK$85.1 million, representing an increase of HK$38.0 million or 80.7% compared to HK$47.1 million in last year.

In order to enrich the product portfolio of its Chinese healthcare products and get immediate access to overseas markets, the Group acquired K'an Herb Company, Inc. ("KAN"), a U.S. based Chinese herbal products company and SODX Co., Ltd. ("SODX"), a Japan based health food products company during the year ended 31 December 2017. The acquisition was completed on 7 March 2017 and 28 August 2017, respectively. HK$31.7 million and HK$3.4 million revenue was contributed by KAN and SODX, respectively, during the year since the completion date. For further detail, please refer to the announcement of the Company dated 3 March 2017 and 14 August 2017.

Apart from the newly acquired Chinese herbal products business in U.S., the Group's existing Chinese healthcare products recorded a revenue growth of HK$2.9 million or 6.1% for the year ended 31 December 2017 compared to HK$47.1 million in last year. The revenue growth of the Group's existing Chinese healthcare products was mainly attributed by the outstanding growth of the Nong's series over-the-counter products,being a result of the continued marketing effort to increase the brand awareness of the Group's Chinese healthcare products.

Plantation

During for the year ended 31 December 2017, the Group has completed the acquisition of Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co. (collectively referred as "Plantation Subsidiaries"), which are engaged in plantation and trading of raw Chinese herbs and manufacturing and sale of TCM decoction pieces (the "Acquisition") on 19 April 2017. The Acquisition allowed the Group to vertically integrate the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of ensuring a stable supply of high-quality raw Chinese herbs at a lower cost. One of the current expansion plans and business strategies of the Group is to expand into the TCM decoction pieces business which is highly complementary to its existing CCMG business. The Acquisition allowed the Group to immediately enter into the TCM decoction pieces industry and the expanded comprehensive product mix of the Group's CCMG, over-the counter Chinese healthcare products and TCM decoction pieces will highly improve the competitiveness of the Group in the market. For further detail, please refer to the announcement of the Company dated 19 April 2017.

For the year ended 31 December 2017, the plantation business of the Plantation Subsidiaries contributed HK$26.4 million to the Group's revenue since the completion date. As the TCM decoction pieces production facilities are still under construction, the revenue from the Planation Subsidiaries was mainly attributed by the plantation, seedling and trading of raw Chinese herbs.

Profitability

	Year ended 31 December		
	2017	2016	Growth Rate
	HK$000	HK$000	
Revenue	591,566	535,986	10.4%
Cost of sales	195,708	187,182	4.6%
Gross Profit	395,858	348,804	13.5%
Gross profit margin	66.9%	65.1%	

The Group's gross profit margin for the year ended 31 December 2017 was 66.9%, representing an increase of 1.8% compared to 65.1% in last year. The average selling price and unit cost remained stable during the year. The increase in the gross profit margin was mainly attributable to the increase in portion of revenue generated from Nong's® (農本方®) Chinese medicine clinics and direct sales customers in China, which generated a higher gross profit margin.

Other income and gains

The Group's other income and gains mainly comprised of government grants, gain from sale of equipment and accessories, fair value gain on biological assets, net foreign exchange gain and interest income. For the year ended 31 December 2017, the Group's other income and gain was HK$31.2 million, representing an increase of HK$20.4 million or 188.6% compared to HK$10.8 million in last year. The increase was mainly due to the net foreign exchange gain resulting from the appreciation of the Group's financial instruments denominated in foreign currencies, and gain on biological assets arising from the plantation business.

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 2017, the Group's selling and distribution expenses was HK$191.8 million, representing an increase of HK$37.4 million or 24.2% compared to HK$154.4 million in last year. The increase was mainly attributable to (i) increased marketing resources to focus on the direct sales customers in the China; and (ii) increased advertising and promotional activities to strengthen the promotion of the Group's products and brands in China.

For the year ended 31 December 2017, selling and distribution expenses as a percentage to revenue was 32.4%, as compared to 28.8% in last year. The increase in percentage was resulted from the decrease in China CCMG sales and increase in selling and distribution expenses in response to sales decrease.

Administrative expenses

The Group's administrative expenses mainly comprised of staff costs, research and development costs, office and clinics rental expenses, legal and professional fees, clinic management fee, depreciation and amortisation, and other general administrative expenses. For the year ended 31 December 2017, the Group's administrative expenses was HK$207.0 million, representing an increase of HK$53.0 million or 34.4% compared to HK$154.0 million in last year. The increase was mainly attributable to (i) increase in clinic management fee, rental expenses and relevant clinic operating expenses in relation to the Group's Nong's® (農本方®) Chinese medicine clinics as the Group operated 69 clinics as at 31 December 2017, as compared to 50 as at 31 December 2016, (ii) increase in administrative expenses for developing the new overseas business segment in Canada, Australia and Japan, (iii) impairment loss of HK$6.8 million for the overdue trade receivables from the customers mainly in the PRC, and (iv) administrative expenses attributed by the newly acquired subsidiaries in Guizhou, U.S. and Japan of HK$23.6 million in aggregate since the respective completion date, and (v) HK$4.4 million legal and professional fee incurred for such acquisitions.

Other expenses

The Group's other expenses mainly comprised of voluntary charity donation, net foreign exchange loss and miscellaneous expenses. The decrease of HK$2.1 million was primarily attributable to a net foreign exchange gain recorded during the year ended 31 December 2017, compared to a net foreign exchange loss in last year and decrease in voluntary charity donation during the year ended 31 December 2017.

Finance costs

For the year ended 31 December 2017, the Group's finance costs amounted to HK$16.9 million, representing an increase of HK$7.5 million or 80.8% as compared to HK$9.3 million in last year. The increase was mainly due to the increase in bank and other borrowings during the year ended 31 December 2017 as compared to last year. The additional bank and other borrowings were mainly used to finance the acquisitions, capital expenditures and general working capital for the year ended 31 December 2017.

Income tax expense

For the year ended 31 December 2017, the Group's income tax expenses amounted to HK$8.4 million, representing an increase of HK$1.9 million or 29.8% as compared to HK$6.5 million in last year, The effective tax rate increased from 16.8% for the year ended 31 December 2016 to 81.7% for the year ended 31 December 2017. The increase in effective tax rate was mainly due to the unrecognised tax loss arose from the new overseas and China clinic business segments, and non-tax deductible legal and professional fee incurred for acquisitions and share-based payment expenses.

Liquidity and Financial Resources

Cash position and interest-bearing bank and other borrowings

As at 31 December 2017, the Group had net current assets of HK$8.1 million (31 December 2016: HK$255.8 million), which included cash and cash equivalent of HK$86.8 million (31 December 2016: HK$209.1 million) and interest-bearing bank and other borrowings amounting to HK$548.0 million (31 December 2016: HK$261.0 million). As at 31 December 2017, the Group's unused bank facilities including overdraft amounted to HK$103.3 million (31 December 2016: HK$197.5 million).

Cash flow and liquidity ratio analysis

	Year ended 31 December	
	2017	2016
	HK$000	HK$000
Net cash used in operating activities	(42,752)	(55,828)
Net cash used in investing activities	(293,101)	(65,208)
Net cash from financing activities	204,179	102,701
Current ratio	1.0	1.6
Gearing ratio	1.0	0.6

For the year ended 31 December 2017, the Group's net cash used in operating activities was HK$42.8 million, which was primarily attributable to the decrease in profit before tax of HK$28.3 million, which was partially offset by the decrease in trade and bills receivables of HK$32.7 million.

For the year ended 31 December 2017, the Group's net cash used in investing activities was HK$293.1 million, which was attributable to (i) acquisition of subsidiaries to expand the business, (ii) the capital expenditures incurred for production equipment for enhancement of existing production line in Nanning, Guangxi Zhuang Autonomous Region (iii) construction of TCM plantation centre held by the Plantation Subsidiaries in Danzhai, Guizhou province, (iv) establishment of new Nong's® (農本方®) Chinese medicine clinics in China and Hong Kong, and (v) acquisitions of three properties in Nanning for the development of clinic business.

For the year ended 31 December 2017, the Group's net cash from financing activities was HK$204.2 million, which was mainly resulted from the net increase in bank and other borrowings of HK$228.1 million to finance the acquisitions, capital expenditures and general working capital.

The Group's net current ratio decreased from 1.6 as at 31 December 2016 to 1.0 as at 31 December 2017, and gearing ratio (calculated by dividing total interest-bearing bank and other borrowings by total equity) increased from 0.6 as at 31 December 2016 to 1.0 as at 31 December 2017. The decrease in net current ratio and increase in gearing ratio was mainly due to additional bank and other borrowings by the Group.

In order to improve the net current ratio and gearing ratio, the Group will consider to leverage on the equity financing by introducing strategy investors to strengthen the equity base if necessary. 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 borrowings:

	Year ended 31 December	
	2017	2016
	HK$000	HK$000
Property, plant and equipment	137,113	54,124
Prepaid land lease payments	25,696	2,779
Available-for-sale investments	10,562	2,570
Inventories	41,479	39,022
Trade and bills receivables	28,304	–
Pledged bank deposits	9,000	11,000
	252,154	109,495

Capital Commitment

	Year ended 31 December	
	2017	2016
	HK$000	HK$000
Acquisition of subsidiaries*	–	217,512
Land and buildings	41,557	48,582
Plant and machinery	5,943	8,866
	47,500	274,960

* As at 31 December 2016, the Group had contracted for capital commitments in respect of the acquisition of the Plantation Subsidiaries amounting to RMB190,000,000 (equivalent to approximately HK$217,512,000). Such acquisition was completed on 19 April 2017.

Contingent Liabilities

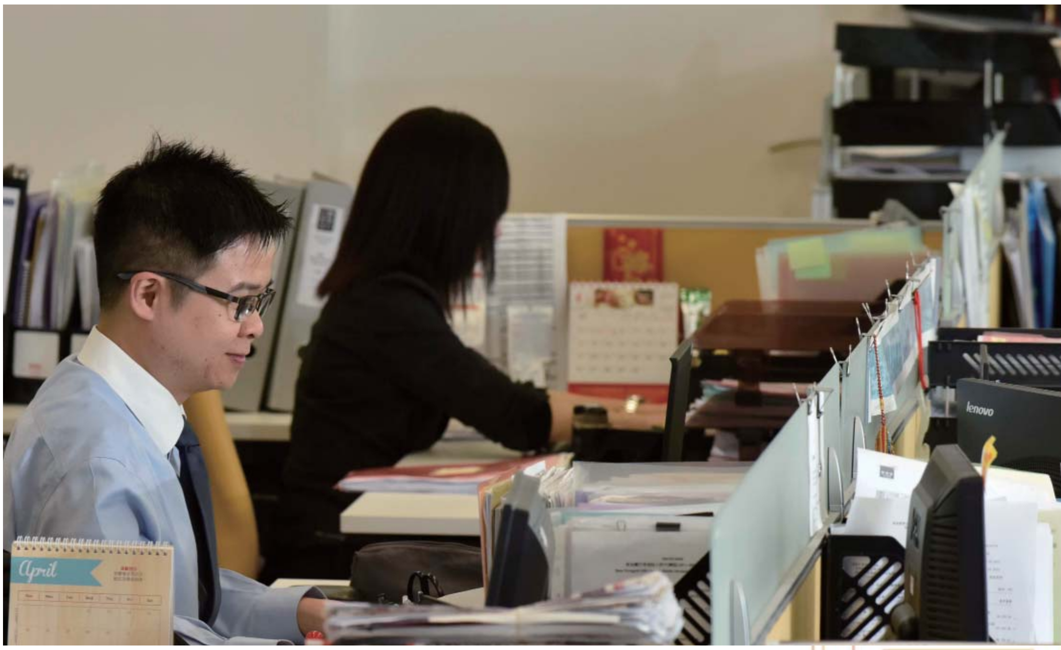
The Group had no material contingent liabilities as at 31 December 2017.

Exchange Risk

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

Human Resources

As at 31 December 2017, the Group had a total of 681 employees (31 December 2016: 544 employees). During the year ended 31 December 2017, total staff costs excluding Directors' remuneration was HK$120.0 million (31 December 2016: HK$113.8 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 Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PuraPharm Corporation Limited - 2017 Annual Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance (ESG) report was prepared in accordance with Environmental, Social, and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange. The Group adhered to the principles of Materiality, Quantitative, Balance and Consistency to report on the measures and performances in this reporting year. Information regarding Corporate Governance is addressed in the annual report according to Appendix 14 of the Main Board Listing Rules.

This report covered the ESG-related activities from 1 January 2017 to 31 December 2017 ("the reporting period").

Unless otherwise stated, the scope of the ESG Report covers the Group's operations in Hong Kong, the People's Republic of China (PRC), Japan, Canada, United States and Australia.

The ESG Report focuses on the Group's most material sustainability issues. In order to identify the material issues, the Group has engaged with various stakeholders in order to grasp more thorough perspectives on the Group's operations. In addition, the Group has appointed third-party consultant to help review the materiality assessment for the Group's operations.

The Group has appointed Allied Environmental Consultants Ltd. (AEC) to provide ESG reporting and consultancy services for this report.

PURAPHARM'S VISION ON SUSTAINABILITY

A large part in the success and sustainability of PuraPharm's business relied on the education of Chinese medicine to the public and the transparent communication of associated environmental and social aspects. PuraPharm has promoted the awareness for Chinese medicine through various media channels and the operation of Nong's Clinic. Aligned with the sustainable progress of raising awareness, PuraPharm has endeavored to create an attractive working culture, manage operations to reduce environmental impact, and contribute to surrounding communities in need.

The Group aimed to communicate the efforts toward sustainable growth through the publication of ESG reports. Through these reports, readers would get a more detailed glimpse on how the Group is developing its workforce, managing its supply chain, ensuring product quality, reducing environmental impacts, optimizing resource consumption, and demonstrating care for the society.

The theme for this year's ESG report is "Bringing health and wellness to the world". Based on the theme, the Group would highlight activities carried out to engage and educate stakeholders, foster a healthy team, manufacture from a sustainable viewpoint, and contribute to the community. The widespread application of Chinese medicine is still a works-in-progress, and this ESG report represent a stepping-stone for PuraPharm to demonstrate how the Group is leading the way.

ENGAGING CUSTOMERS AND STAKEHOLDERS

PuraPharm has long been engaged in the widespread education to the public of using Chinese medicine. In particular, PuraPharm has marketed its CCMG products that made the adoption of Chinese medicine more convenient and accessible. Through continuous efforts of education through talk shows, hosting seminars, engaging with social media, and ultimately the spread and operation of Nong's Clinic, the awareness and adoption of Chinese medicine has been effectively raised. As the Group continues to bring health and wellness to the world, the Group will continue to seek out strategic ways to engage, educate, and attract more customers.

EDUCATION

Education for the stakeholders was a critical strategic development that the Group has invested in. The Group has adopted a wide range of channels to communicate the benefit of Chinese medicine to the public. Whether it was through traditional methods such as radio and TV talk shows, through seminars hosted at universities, or through new-aged social media and mobile phone apps, the Group has expanded its network in order to reach as many people groups as possible. Through constant communication and education, not only would the Group's business growth be sustained, but the society may be benefited from the widespread adoption of Chinese medicine.

PuraPharm has also invested in nurturing the next generation to be more aware of or even practice Chinese medicine. During the reporting period, the Group has partnered with and offered scholarships to local and international universities such as The Chinese University of Hong Kong, University of Toronto, and University of Sydney. These scholarships enabled students to get an "east meets west" perspective in practicing medicine, furthering research and integration, and ultimately benefiting society as a whole. Additionally, the Group has provided internship opportunities to university students for practical industry experience and applications.

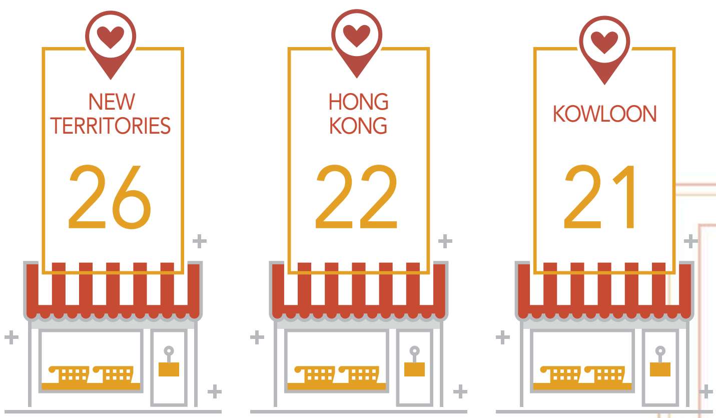
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE RECOGNITION

Through many years of hard work in education and innovation, PuraPharm has gained widespread attention of its efforts to promote Chinese medicine. In commemoration of the 20th anniversary of the Hong Kong handover, an organization called "We Like HK" organized an event called "努力有明天" which invited many Hong Kong citizens or corporations to share inspirational stories and to pass on the virtue of perseverance. PuraPharm has received two awards from this memorable event: the "Supreme Award" and "Most Innovative Enterprise Award". Every person and every corporation has a story to tell — PuraPharm's story has been one of dedication, hard work and innovation. As PuraPharm's story continues in efforts to modernize the use of Chinese medicine, and to make Chinese medicine more applicable so society at large may be benefitted, the Group's mission is becoming more recognized and realized: We dedicate ourselves to humanity's quest for longer, healthier, happier lives through the innovation and modernization of traditional Chinese Medicine.

NONG'S CLINIC

Nong's® (農本方®) Chinese medicine clinics served as the localized means for the education and spread of Chinese medicine. The public were able to tangibly experience the service provided by the Nong's Chinese medicine practitioners in the consultation visit, and receive necessary medication treatments. As of December 2017, there are 69 Nong's® (農本方®) Chinese medicine clinics in operation across Hong Kong Island, Kowloon and New Territories, representing a 38% growth from previous year (previous year: 50). The expansion of Nong's® (農本方®) Chinese medicine clinics not only allowed the penetration of Chinese medicine into various districts and housing estates in Hong Kong, but also provided job opportunities to many young and aspiring Chinese medicine practitioners.



FOSTERING A HEALTHY TEAM

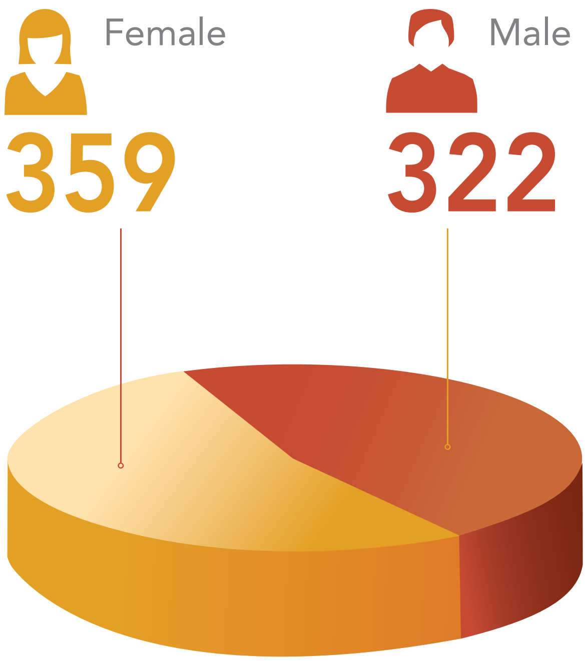
Attracting Talents

Attracting and fostering a healthy and growing team were some of the key components in the Group's recent rapid expansion and growth. In both Hong Kong and Mainland China operations, the employment practices adopted an equal-opportunity and non-discriminatory approach whereby the best-suited candidate would be selected for the job. The Group's Human Resources Department ensured strict adherence was observed for all employment and labour issues such as preventing child labor and forced labor. During the reporting period, the Group has complied with all relevant laws and regulations related to employment and labour.

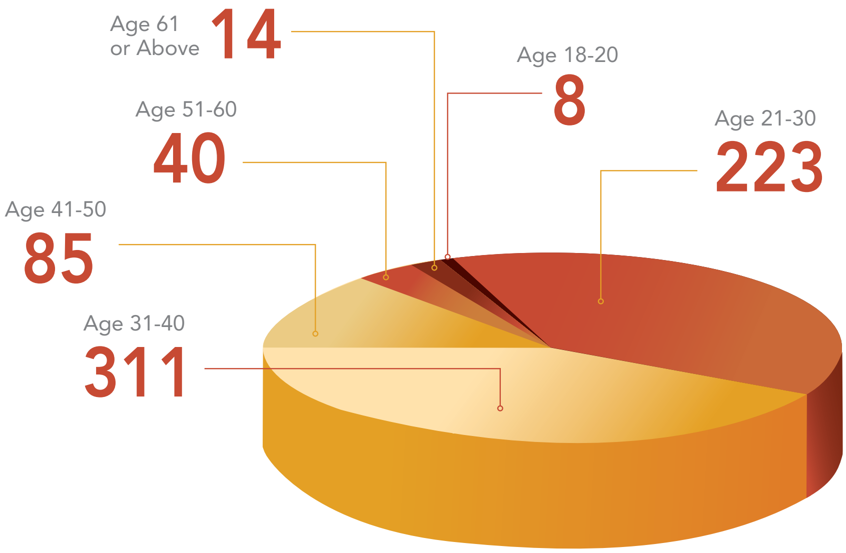
Employees were offered attractive compensation packages, promotion opportunities and reasonable working hours and rest periods. On the job, employees were required to abide by a code of conduct, as detailed in the employee handbook, in a respectful manner that encouraged a culture of cooperation.

During the reporting period, the Group has experienced a growth in employees by 25%, which mainly could be attributed to the recent acquisitions and business developments.

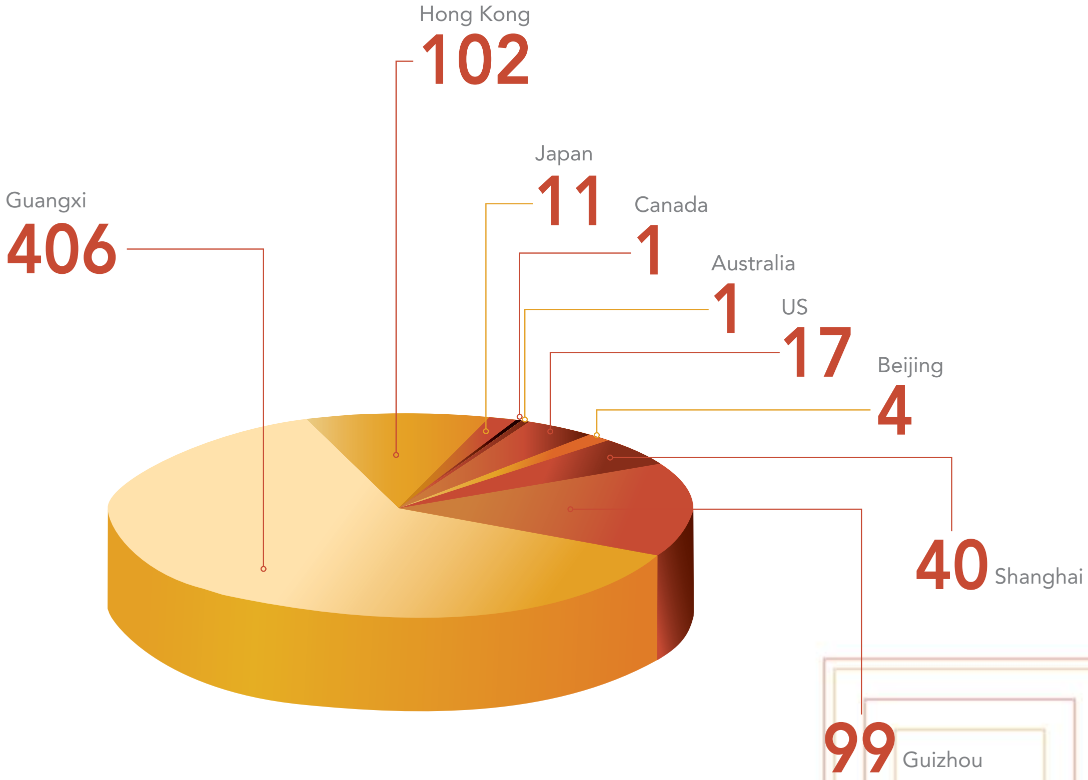
Breakdown by Gender



Breakdown by Age Group



Breakdown by Geographical location



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Staff Activities

Even amidst the hard work and toils at work, the Group sought ways to celebrate with employees and strived to provide a happy and enjoyable working environment. During the reporting period, the Group has held birthday celebrations with staff, interest classes, BBQ and cooking competitions, Christmas party, and annual dinners respectively.

Chinese New Year Dinner

Birthday celebration

Interest class for Father's Day

Developing Talents

In addition to providing an attractive working environment for the staff, the Group has also committed to fostering employees through encouraging and providing training and development opportunities. While specific trainings were provided to employees to ensure smooth manufacturing operations, other trainings were focused on expanding employee technical and managerial skills. The Group offered 100% reimbursement for training courses initiated by the company and partial reimbursement for training courses initiated by the employee.

During the reporting period, several PuraPharm team members participated in an Autopilot Leadership Workshop. The training emphasized talent and teamwork, and through the six dimensions including "choosing the right talents", "high trust environment", "highly effective team", "common goal", "effective empowerment" and "coaching and developing talent", employees could unleash their full potential and feel exhilarated so that more talents are attracted to the Company, ensuring sustainable development. Through a couple days of memorable training, members of the staff have been empowered to lead more effectively in his/her position in PuraPharm.

Staff participated in the Autopilot Leadership Workshop

Anti-corruption Policy

All staff must abide by the Group's Code of Conduct, whereby staff members were prohibited from soliciting or accepting any illegal advantage from third parties. Staff were asked to avoid situations where personal interests may be in conflict with official duties. Should such conflict arise, a declaration must be made to the Company. Any staff member breaching the Code of Conduct would be subject to disciplinary action. During the reporting period, the Group has complied with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

Health and Safety

The Group has committed to the preservation of employees health and safety. As such, proper training and standard operating procedures have been implemented to ensure all works conducted in the manufacturing process were safe and reduced in hazards and risks. The Group has adopted the following measures:

- Provisions of safety training prior to engagement with work tasks
- Provisions of safety and protective equipment
- Regular inspections to identify occupational hazards and eliminate associated risks
- Regular training and reminders for employee to raise awareness on occupational safety

During the reporting period, the Group has complied with relevant laws and regulations relating to safe working environment and protection of employees from hazards.

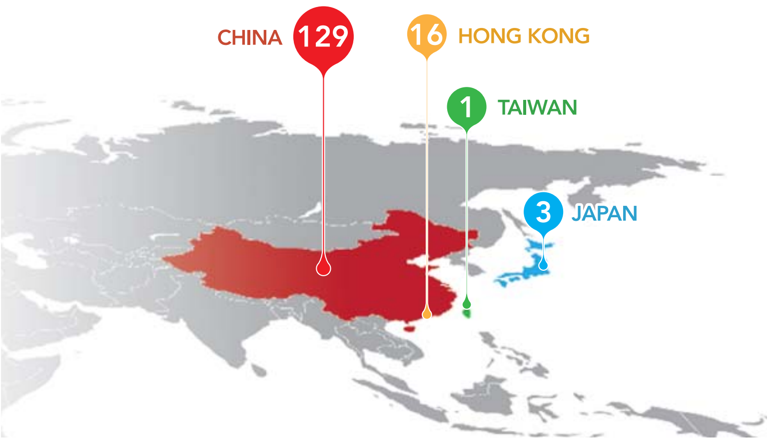
SUSTAINABLE OPERATIONS

Supply Chain Management

A properly managed and sustainable supply chain served as a critical first-step in the Group's sustainable operations. Considerations for suppliers' quality, reputation, delivery punctuality, experience, scale of operation and location of plantation site would be made by the Group's experienced procurement team. Additionally, a designated inspection team from the Quality Assurance Department would make annual visits to selective suppliers to assess site conditions, quality management, and logistics services. In the cases where suppliers did not comply with requirements, the Group would communicate the necessary follow-up actions and require suppliers to report back to the Quality Assurance Department within 30 days. The inspection team would assess and review the deficiency on the next audit session.

As PuraPharm has high standards with regards to ethical Code of Conduct, the Group has required all suppliers to observe the same standards. The Group has communicated the enforcement of a Code of Conduct for employees, and the suppliers were asked to cooperate with the Group to prevent any provisions on solicitation and acceptance of advantages. PuraPharm has endorsed the open and transparent communication channels with suppliers in order to reduce potential social risks along the supply chain.

Number of suppliers in 2017:



Quality Control

Quality assurance procedures

To bring health and wellness to the world implied a strict adherence to product quality control. The Group has enforced strict policies on product responsibility that complied with systematic standard operating procedures such as the Good Manufacturing Practice standards of the China Food and Drug Administration, Australia's Therapeutic Goods Administration, and the United States Pharmacopeia Convention. Through compliance with the abovementioned systematic standard procedures, the health, safety, and purity of the medicines would be maintained.

The production process has adopted the following quality control measures, including:

- Establishment of quality control system to implement regular monitoring, internal audits, self-inspections, and handling methods to ensure materials and products were properly received, stored, and distributed

- Implement hygiene control of production facilities and equipment

- Conduct quality checks for raw materials, intermediates and finished products

- Conduct safety tests to detect heavy metals, pesticide residues and microbial counts before product is released to the market

- Utilize latest technologies and equipment to scientifically enhance product quality control

- Appoint independent third-party laboratory to perform safety tests on selective products

Additionally, the Group's Nanning testing laboratory has been certified by the China National Accreditation Service for Conformity Assessment in accordance with the ISO/IEC 17025:2005 General requirements for the competence of testing and calibration laboratories. This has enabled the Group to competently carry out testing required during the production process.

Product Compliant and Recall procedures

While the Group enforced strict product quality guidelines along manufacturing processes, part of bringing health and wellness to customers required frequent communication to understand customer feedbacks and/or service-related complaints. In this regard, PuraPharm has established a multi-disciplinary committee to oversee product responsibility issues that included representatives from supply chain management to sales and marketing, human resources, legal and compliance, and finance department. This special committee has set forth standard procedures for product recall that would ensure quick assessment and identification of deficiencies balanced with management of customer expectations and company image.

During the reporting period, there were fourteen cases of customer complaints. Each of these cases has undergone investigation to find no significant errors in the production line. The issues have been properly settled with the customer through project exchange.

Marketing of product and brand

In relation to the PuraPharm product and brand, the Group has undertaken rigorous steps to ensure all advertising and labeling have complied with local and international requirements. As a result of the Group's efforts, the Group has obtained certification of claims such as: "No. 1 Market Leader in concentrated Chinese Medicine Granules in Hong Kong"[1] and for Nong's Clinic: "The largest Chinese medicine clinic chain in Hong Kong"[2]. PuraPharm valued strategic marketing conducted under internationally recognized framework, and continued to seek new opportunities to make Chinese medicine a widespread use around the world.

Intellectual property and data protection

In the same endeavor as its marketing approach, the Group has observed and protected intellectual property rights of its own and of others by enforcing steps and procedures in compliance with international requirements. In order to maintain a good reputation and long-term relationship with vendors and customers, safeguarding and honoring intellectual property and data protection were of high importance in the Group's values. Relevant training and policy procedures have been provided to staff in order to raise awareness and adopt the same values.

Compliance with relevant laws

In the reporting period, the Group has complied with all relevant laws and regulations relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.

Environmental Policy

In order to operate in an environmentally responsible manner, the Group has established the following policies to be adopted across production and operations:

- Compliance with all relevant environmental laws and regulations
- Minimize air pollutant and greenhouse gas emissions
- Utilize energy, water and raw materials efficiently
- Provide adequate facilities to properly treat wastewater
- Reduce hazardous and non-hazardous waste generation
- Promote recycling both internally and amongst customers and suppliers
- Minimize overall impact on the environment and natural resources

During the reporting period, the Group has complied with all relevant environmental laws and regulations.

note 1 "Sourced from Euromonitor Report on Concentrated Chinese Medicine Granules (CCMG) market (in terms of prescription revenue in 2016) in Hong Kong")

note 2 "Euromonitor International Ltd., based on number of Chinese medicine clinic chain offering consultation services, September 2017")

Energy Consumption & Greenhouse Gas Emissions

The major sources of energy consumption were electricity, natural gas, and coal. Electricity was used across offices, factories, warehouses and clinics to provide power to facilities and equipment. Natural gas and coals were respectively used for the factories in Nanning and Guizhou for boilers to generate steam for production purposes.

Greenhouse gas (GHG) emissions considered the direct emissions from coal burning, and the indirect emissions from electricity and natural gas consumptions as supplied by utility companies. Respective emission factors have been obtained from relevant authorities and applied in calculations accordingly.

Energy consumption[1]

	Unit	2017
Total Electricity consumption	kWh	11,073,834
Offices	kWh	110,509
Manufacturing plants and warehouses	kWh	10,666,386
Clinics	kWh	296,939
Total Natural Gas consumption	m^3	2,335,901
Total Coal consumption	tonnes	416
Total Energy Intensity	GJ/ million revenue	238
Offices	GJ/ million revenue	0.7
Manufacturing plants and warehouses	GJ/ million revenue	236
Clinics	GJ/ million revenue	1.8

Note 1: Energy consumption considered Hong Kong and China operations only

GHG Emissions within the Group

	Unit	2017
Direct GHG emissions (Scope 1)	tonnes of CO_2 equivalent (tCO_2e)	6,017
Indirect GHG emissions (Scope 2)	tCO_2e	6,511
Total GHG	tCO_2e	12,528
Total GHG emissions intensity	tCO_2e/million revenue	21.2

Water Resources

Water has been sourced from government water supplies and used for cooling and cleansing purposes. During the production process, water generated from steam and cooling water has been re-circulated to the cooling tower in an endeavor to conserve water.

Wastewater treatment systems have been installed on site to treat all wastewater before being discharged in accordance with relevant standards.

Water consumption[1]

	Unit	2017
Total water consumed	m^3	242,089
Total water intensity	m^3/million revenue	409

Note 1: Water consumption considered China operations only

Waste Management

The major source of waste generated from production was from herbal residues. In the reporting year, the Nanning production plant has cooperated with a fertilizer company to integrate waste herbal residues to create organic fertilizers. This method has successfully converted "waste to resource" and further benefited the environment and society. The Group continued to promote proper waste management and to recycle wastes as far as practicable.

Hazardous waste generated from the Group's operations included acupuncture needles used in selective Nong's Clinics. The acupuncture wastes were properly stored and treated in accordance with local standards and requirements.

Waste management

	Unit	2017
Non-hazardous		
Herbal residues	tonnes	5,841
Recycled Paper	tonnes	108
Recycled Plastic	tonnes	297
General refuse	tonnes	93
Hazardous		
Acupuncture waste	kg	17.7

Environmental Mitigation Measures

As part of the Group's policy to use resources more efficiently and thus minimizing gaseous pollutant and GHG emissions, the Group has invested in equipment that would enable operations to be performed in a more efficient manner. For example,

- Application of the Mechanical Vapour Recompression (MVR) system since 2015 that would largely reduce the electricity, water, and steam consumption compared with conventional processes

- Installation of steam ejection pumps for waste heat collection and re-use

- Replacement of Freon cooling systems with water curtain cooling system

- Since 2015, the lighting fixtures in the factories of Guizhou have been replaced with LED light tubes that were 50% more energy efficient.

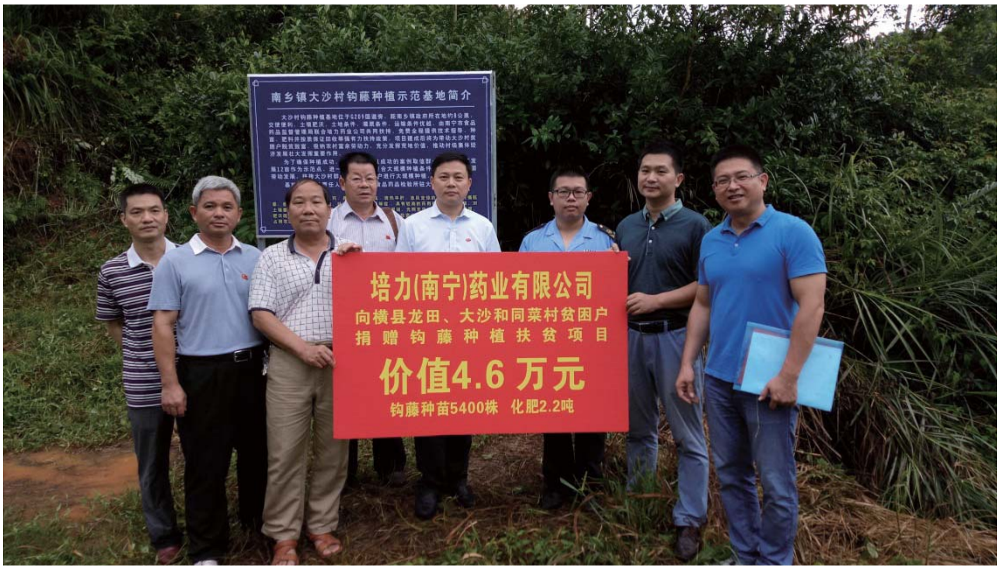
COMMUNITY INVESTMENT

PuraPharm has actively participated in community services as an extension of its strive to bring health and wellness to the world. Through these community services, not only is PuraPharm upholding its corporate responsibility, but groups of people in Hong Kong and abroad would be benefited by the generosity of the Group. During the reporting period, the Group has a total of HKD$2,355,149 invested in the community that included scholarships, donations, sponsorships and charity events.

Community Activities

The Group has participated in a number of community activities such as sponsoring a group of students on the Philippines Chinese Medicine Service Trip; donated to impoverished areas in Mainland China; sponsored inter-university sports activity; and participated in the Walk for Millions activity organized by The Community Chest and the Hong Kong Jockey Club to raise funds to support family and children welfare services in Hong Kong.

Philippines Chinese Medicine Service Trip



Poverty alleviation donations in China

PATENTS IN 2017

Name	Issuer	Issue date
NEUROPROTECTIVE GANODERMA COMPOSITIONS AND METHODS OF USE	Intellectual Property Department HKSAR	15 December 2017
	State Intellectual Property Office — Switzerland	1 March 2017
	State Intellectual Property Office — Germany	1 March 2017
	European Patent Office	1 March 2017
	State Intellectual Property Office — France	1 March 2017
	State Intellectual Property Office — UK	1 March 2017

LOOKING FORWARD

PuraPharm continues to position itself in a world that is trending towards a health-conscious mindset. On a local context, the Chinese government has already established favorable policies to promote the traditional Chinese medicine industry. The Group is keenly aware of the latest trends and policies, and has strategically planned to expand its "one-stop" services in the whole supply chain of traditional Chinese medicine starting from seedling and plantation of raw herbs, manufacturing of CCMG products, provision of consultation service at Nong's® (農本方®) Chinese medicine clinics and prescription of Chinese medicine to patient. The road ahead is promising and bright, and PuraPharm will strive for every effort to continue on this road of sustainability that would bring health and wellness to the world.

CORPORATE GOVERNANCE REPORT

PuraPharm Corporation Limited - 2017 Annual Report

NONG'S
農本方

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 2017.

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 2017 (the "Review Period"), save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

Pursuant to provision A.2.1 of the Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. However, due to the nature and extent of the Group's operations and Mr. 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 Company 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 A.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.

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

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 financial statements of the Group and the Company for the year ended 31 December 2017.

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 ensuring 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.

Pursuant to code provision B.1.5 of the Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2017 is set out below:

Remuneration band (HK$)	Number of Individual
Nil–1,000,000	7
1,000,001–1,500,000	3
1,500,001–2,000,000	1

Details of the remuneration of each Director for the year ended 31 December 2017 are set out in Note 8 to the financial statements in this annual report.

3. Board Composition

As at 31 December 2017, the Board consisted of nine Directors, five of whom were Executive Directors, and four of whom were Independent Non- executive Directors. Biographies of the Directors are set out on pages 8 to 11 of this annual report.

As at 31 December 2017, the Board of the Company comprises the following Directors:

Executive Directors	Mr. Chan Yu Ling, Abraham *(Chairman and Chief Executive Officer)* Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)* Mr. Chan Kin Man, Eddie (redesignated as Executive Director from Non-executive Director on 15 November 2017) Mr. Chan Lung Sang Ms. Man Yee Wai, Viola
Independent Non-executive Directors	Dr. Chan Kin Keung, Eugene Dr. Leung Lim Kin, Simon Mr. Ho Kwok Wah, George Prof. Tsui Lap Chee

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

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

Prior to their respective appointment, each of the Independent Non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also 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. 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 commencing from the Listing Date (save for Mr. Chan Kin Man, Eddie's service contract which is for a term of three years commencing from 15 November 2017, and Mr. Chan Lung Sang's service contract which is for a term of one year commencing from 22 August 2016), which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the Independent Non-executive Directors and Non-executive Director has signed an appointment letter with the Company for a term of three years with effect from the Listing Date 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.

The Directors 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. Continuing briefing and professional development for Directors were arranged by the Group and its legal advisers.

For the year ended 31 December 2017, 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 2017, 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 general meetings (whether in person or by means of electronic communication) held during the year ended 31 December 2017 are set out below:

Name of Director	Board Meeting	Annual general meeting
Mr. Chan Yu Ling, Abraham	9/9	1/1
Dr. Tsoi Kam Biu, Alvin	9/9	1/1
Mr. Chan Lung San, Calvin	8/9	1/1
Ms. Man Yee Wai, Viola	9/9	1/1
Mr. Chan Kin Man, Eddie	8/9	1/1
Dr. Chan Kin Keung, Eugene	6/9	1/1
Dr. Leung Lim Kin, Simon	7/9	0/1
Mr. Ho Kwok Wah, George	9/9	1/1
Prof. Tsui Lap Chee	9/9	1/1

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

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 company secretary 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 four committees, namely, the Remuneration Committee, Audit Committee, Nomination Committee and Scientific Advisory Committee, for overseeing particular aspects of the Group's affairs. All of these four 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. During the Review Period, out of eight committee members of Scientific Advisory Committee, seven of them are not Directors of the Company. Subsequent to the completion of appointment term of Mr. Chan Yu Ling, Abraham on 28 February 2018, none members of Scientific Advisory Committee are Directors of the Company.

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)*
Dr. Tsoi Kam Biu, Alvin
Prof. Tsui Lap Chee

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 recommendation 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:

Committee members	**Meeting attended/ Total**
Dr. Chan Kin Keung, Eugene *(Chairman)*	3/3
Dr. Tsoi Kam Biu, Alvin	3/3
Prof. Tsui Lap Chee	3/3

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 non-executive members, and the majority of whom are Independent Non- executive Directors:

Mr. Ho Kwok Wah, George *(Chairman)*
Dr. Chan Kin Keung, Eugene (appointed as member of Audit Committee on 15 November 2017)
Mr. Chan Kin Man, Eddie (resigned as member of Audit Committee on 15 November 2017)
Dr. Leung Lim Kin, Simon

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 financial controls, internal control and risk management systems of the Group; (iii) reviewing financial and accounting policies and practices of the Group.

The Audit Committee has 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 considers that the annual financial results for the year ended 31 December 2017 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made. The Audit Committee has also reviewed the continuing connected transactions of the Group and the report of the auditor on continuing connected transactions.

The attendance records of the Audit Committee held during the year ended 31 December 2017 are set out below:

Committee members	Meeting attended/ Total
Mr. Ho Kwok Wah, George *(Chairman)*	2/2
Dr. Chan Kin Keung, Eugene	N/A
Mr. Chan Kin Man, Eddie	2/2
Dr. Leung Lim Kin, Simon	1/2

3. Nomination Committee

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

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

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 year ended 31 December 2017 are set out below:

Committee members	Meeting attended/ Total
Mr. Chan Yu Ling, Abraham *(Chairman)*	2/2
Dr. Chan Kin Keung, Eugene	2/2
Dr. Leung Lim Kin, Simon	2/2

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

Summary of the 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. 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.

4. Scientific Advisory Committee

The Company has established the Scientific Advisory Committee with written terms of reference in June 2015. As at 31 December 2017, save for Mr. Chan Yu Ling, Abraham is an Executive Director, none of the members of Scientific Advisory Committee are Director of the Company:

Prof. Paul Vanhoutte (Chairman)
Prof. Rudolf Bauer
Mr. Chan Yu Ling, Abraham (subsequently ceased as member of Scientific Advisory Committee upon completion of appointment term of three years on 28 February 2018)
Prof. Piu Chan
Prof. Peter Hylands
Prof. Liang Song Ming
Mr. Lin Jinn Sin
Prof. Bruce Robinson

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 member of the Scientific Advisory Committee shall meet at least once every year.

The attendance records of the Scientific Advisory Committee held during the year ended 31 December 2017 are set out below:

Committee members	Meeting attended/ Total
Prof. Paul Vanhoutte	1/1
Prof. Rudolf Bauer	1/1
Mr. Chan Yu Ling, Abraham	1/1
Prof. Piu Chan	1/1
Prof. Peter Hylands	1/1
Prof. Liang Song Ming	1/1
Mr. Lin Jinn Sin	1/1
Prof. Bruce Robinson	1/1

D. 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 Review Period.

E. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the Financial Statements is set out in the "Independent Auditor's Report" on pages 110 to 117.

For the year ended 31 December 2017, the fees paid/payable to Ernst & Young for the audit service are HK$2,095,000.

Fees paid/payable to Ernst & Young for non-audit services provided to the Group for the year was HK$550,000. The non-audit services were mainly for reviewing of the Group's interim results.

F. 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 Company'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 Group's internal control system includes a well-established organizational 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.

During the year ended 31 December 2017, the Audit Committee, which was delegated by the Board, has reviewed and evaluated the effectiveness of the internal control system of the Group. The review has covered the financial reporting process and risk management aspects of the Group. The review was made by discussion with the management of the Company. The Audit Committee believes that the existing internal control system is adequate and effective.

G. Communications with Shareholders and Investors

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.

H. 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 Directors.

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:	Suite 4002, Jardine House 1 Connaught Place, Central 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.

Any shareholder may appoint a proxy or representative to attend the general meeting, and they are entitled to exercise the same voting rights in the meeting.

The amended and restated memorandum and articles of association of the Company was conditionally adopted by written resolutions passed on 12 June 2015 which became effective upon the Listing Date. The latest version of the Articles is available on the websites of the Company and of the Stock Exchange.

I. Company Secretary

Mr. Lau Ka Kuen was appointed by the Board as the company secretary of the Company with effect from 1 February 2018. Prior to appointment of Mr. Lau Ka Kuen, Mr. Cheng Hok Kai, Frederick was the company secretary of the Company who resigned from such position with effect from 1 February 2018. All Directors have access to the advice and services of the company secretary of the Company to ensure the Board procedures, and all applicable law, rules and regulations, are followed. For the financial year ended 31 December 2017, Mr. Cheng Hok Kai, Frederick had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

RISK MANAGEMENT REPORT

PuraPharm Corporation Limited - 2017 Annual Report


Oncozac
安固生
藥用雲芝
300 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 2017:

- Management conducted annual Internal Control Self-Evaluation in 2017. 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 need 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

PuraPharm 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 facing to management 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 risks.

Risk Monitoring
Monitor risk mitigation measures implemented by risk owners

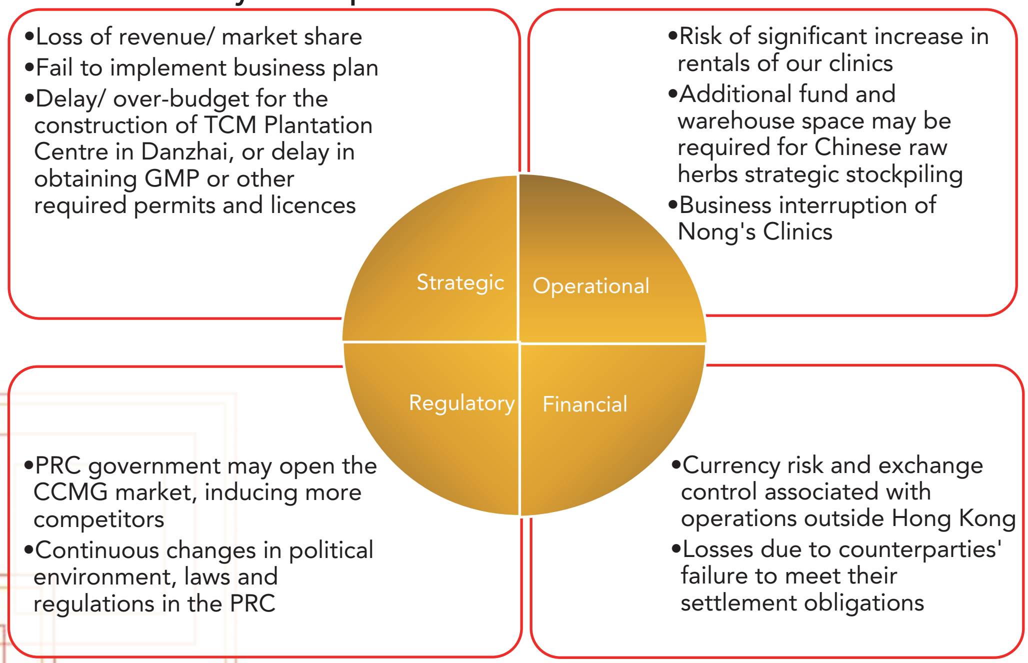
RISK MANAGEMENT REPORT

SIGNIFICANT RISKS

In 2017, PuraPharm 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.

PuraPharm Key Risk Exposures:

D1: PuraPharm Key Risk Exposures



Details of Key Risks Identified

Throughout the risk assessment process in 2017, followings are identified as material risks and respective mitigation plan(s):

Category	Risk identified	Mitigation plan(s)
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 product
Strategic	Fail to implement business plan	• Continue monitoring the impact of market changes to the Group's plan
Strategic	Delay/over-budget for the construction of TCM Plantation Centre in Danzhai, or delay in obtaining GMP or other required permits and licences	• Continuously monitor the construction of the TCM Plantation Centre • Production facilities and production process are under construction or built in accordance with the PRC GMP for Drugs
Regulatory	PRC government may open the CCMG market, inducing more competitors	• Expand our market share and maintain good relationship with our existing customers • Devote more effort in developing new products
Operational	Risk of significant increase in rentals of our clinics	• Continue monitoring the rental market of commercial properties
Operational	Additional fund and warehouse space may be required for Chinese raw herbs strategic stockpiling	• Utilise the warehouse in Guizhou for Chinese raw herbs storage
Operational	Business interruption of Nong's Clinics	• Have shop insurance to reduce monetary loss in case of business interruption or natural disaster • Divert patients to nearby clinics

RISK MANAGEMENT REPORT

Category	Risk identified	Mitigation plan(s)
Regulatory	Continuous changes in political environment, laws and regulations in the PRC	• Continue monitoring and assessing impact of relevant changes
Financial	Currency risk and exchange control associated with operations outside Hong Kong	• Consider making RMB and JPY loans in the PRC and Japan to support operations and expansions there • Buy in foreign currencies as reserve for future use when they depreciate against HKD to suitable rate • Fund PRC investment projects by the Group's PRC subsidiaries whenever appropriate
Financial	Losses due to counterparties' failure to meet their settlement obligations	• With guidelines to control approval of credit limit and credit terms

REPORT OF THE DIRECTORS

PuraPharm Corporation Limited - 2017 Annual Report


NONG'S 農本方
CHINESE MEDICINE
農本方中醫診所
2889-0468
NONG'S Chinese Medicine Clinic
中醫門診
Chinese Medicine Clinic

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

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, as well as the rendering of Chinese medical diagnostic services. After the acquisition of the plantation businesses in April 2017 (note 31 to the financial statement), the Group's activities also include the plantation and trading of raw Chinese herbs, and the manufacture and sale of Traditional Chinese Medicine ("TCM") decoction pieces.. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, 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 49 of this annual report. This discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 118 to 213. The Board does not recommend the payment of final dividend for the year ended 31 December 2017 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. As at 31 December 2017, the Group had utilised approximately HK$244.2 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	Approximate amount of net proceeds (in HK$ million)	Approximate percentage of net proceeds	Approximate amount utilized (in HK$ million)
To expand manufacturing facilities and enhance existing production lines	86.5	30%	66.6
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%	19.0
Additional working capital of the Group	28.8	10%	28.8
	288.4	100%	244.2

SUMMARY 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 financial statements, and an analysis of the Group's performance using financial key performance indicators is set out on page 214 to 215. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 28 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities throughout the year ended 31 December 2017.

REPORT OF THE DIRECTORS

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 2017, the Company's reserves available for distribution amounted to approximately HK$212,510,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$1 million.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 17.1% (2016: 19.9%) of the total sales for the year and sales to the largest customer included therein amounted to 7.2% (2016: 4.8%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year 2017 (2016: less than 30%).

DIRECTORS

The directors of the Company during the year were:

Chairman and Executive director:

Mr. Chan Yu Ling, Abraham

Executive directors:

Dr. Tsoi Kam Biu, Alvin
Mr. Chan Kin Man, Eddie (re-designated as Executive director from Non-executive director on 15 November 2017)
Mr. Chan Lung Sang
Ms. Man Yee Wai, Viola

Independent non-executive directors:

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

In accordance with articles 108 and 112 of the Company's articles of association, Mr. Chan Kin Man, Eddie, Dr. Tsoi Kam Biu, Alvin and Dr. Chan Kin Keung, Eugene will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Mr. Chan Lung Sang, although eligible, will not offer himself for re-election due to his own decision to devote more time to his personal endeavours and will retire as a Director after the conclusion of the forthcoming annual general meeting. Mr. Chan Lung Sang has confirmed that he has no disagreement with the Board and there is no other matter in relation to his retirement that needs to be brought to the attention of the Shareholders.

The independent non-executive directors are appointed for periods of three years.

The Company has received annual confirmations of independence from Dr. Leung Lim Kin, Simon, Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George and Prof. Tsui Lap Chee, and as at the date of this 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 15 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 commencing from the Listing Date (save for Mr. Chan Kin Man, Eddie's service contract which is for a term of three years commencing from 15 November 2017, and Mr. Chan Lung Sang's service contract which is for a term of one year commencing from 22 August 2016), 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 with effect from the Listing Date 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

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance, the results of the Group and recommendation from the remuneration committee.

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.

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

As at 31 December 2017, the board of directors of the Company ("Directors") and chief executives of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise 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 Shares held or interested[1]	Percentage of the Company's issued share capital
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Interest of controlled corporations	141,903,220 (L)[2][3][4]	57.29%
	Beneficial owner	1,989,000 (L)	0.80%
	Interest of spouse	51,716,500 (L)[5]	20.82%
	Beneficiary of a trust	300,000 (L)[9]	0.12%
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Interest of a controlled corporation	51,566,500 (L)[6]	20.82%
	Interest of spouse	144,192,220 (L)[7]	58.21%
	Beneficiary of a trust	150,000 (L)[9]	0.06%
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Interest of controlled corporations	3,125,000 (L)[8]	1.26%
	Beneficiary of a trust	20,000 (L)[9]	0.01%
Dr. Tsoi Kam Biu, Alvin	Beneficiary of a trust	150,000 (L)[9]	0.06%
Mr. Chan Lung Sang	Beneficiary of a trust	150,000 (L)[9]	0.06%
Dr. Chan Kin Keung, Eugene	Beneficiary of a trust	20,000 (L)[9]	0.01%
Mr. Ho Kwok Wah, George	Beneficiary of a trust	20,000 (L)[9]	0.01%
Dr. Leung Lim Kin, Simon	Beneficiary of a trust	20,000 (L)[9]	0.01%
Prof. Tsui Lap Chee	Beneficiary of a trust	20,000 (L)[9]	0.01%

Notes:

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

2. Mr. Abraham Chan beneficially owns 50% of the issued share capital of Joint Partners Investments Limited ("Joint Partners"), which in turn wholly owns the entire issued capital of PuraPharm Corporation Limited ("PuraPharm Corp"), a limited liability company incorporated in the British Virgin Islands on 5 May 1998. PuraPharm Corp owns 51,566,500 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by PuraPharm Corp.

3. Mr. Abraham Chan beneficially owns the entire issued share capital of Fullgold Development Limited ("Fullgold Development"), which in turn owns 77,286,000 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Fullgold Development.

4. Mr. Abraham Chan beneficially owns the entire issued share capital of Gold Sparkle Limited ("Gold Sparkle"), which in turn owns 13,050,720 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Gold Sparkle.

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

6. Ms. Viola Man beneficially owns 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued capital of PuraPharm Corp. PuraPharm Corp owns 51,566,500 Shares. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by PuraPharm Corp.

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

8. Mr. Eddie Chan wholly owns the entire issued share capital of Best Revenue Investments Limited ("Best Revenue") and K. M. Chan & Co. Limited ("KM Chan") , which in turn owns 1,562,500 Shares and 1,562,500 Shares, respectively. By virtue of the SFO, Mr. Eddie Chan is deemed to be interested in the Shares held by Best Revenue and KM Chan.

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

Save as disclosed above, as at 31 December 2017, none of the Directors, chief executives of the Company and/or their respective associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise 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 2017, so far as was known to the Directors, the following entity (not being the Director or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of entity	Nature of Interest	Number of Shares held or interested[1]	Percentage of the Company's issued share capital
PuraPharm Corp	Beneficial owner	51,566,500 (L)	20.82%
Joint Partners	Interest of a controlled corporation	51,566,500 (L)[2]	20.82%
Fullgold Development	Beneficial owner	77,286,000 (L)	31.20%
Gold Sparkle	Beneficial owner	13,050,720 (L)	5.27%

Notes:

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

2. PuraPharm Corp is wholly owned by Joint Partners. By virtue of the SFO, Joint Partners is deemed to be interested in the Shares held by PuraPharm Corp.

Save as disclosed above, as at 31 December 2017, no person, other than a Director or chief executive of the Company, had registered an interest or short position in the Shares, underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") to recognise and acknowledge the contributions that the eligible participants had or may have made to the Group. The principal terms of the Scheme are summarised in note 29(a) to the financial statements .

The Scheme was adopted on 12 June 2015 and unless otherwise cancelled or amended, will remain in force for a period of 10 years to 11 June 2025. Since the adoption of the Scheme, no share options were granted, exercised or cancelled by the Company under the Scheme. There were no outstanding share options under the Scheme as at the date of this annual report.

SHARE AWARD SCHEME

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

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

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

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

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

The Board has further resolved in February 2016 that a sum of HK$10,000,000 be provided for the purchase of the Shares to be awarded to the Eligible Award Participants to be selected by the Board. During the year ended 31 December 2017, no Share (2016: 3,021,000 Shares in aggregate consideration of approximately HK$10,019,000) was purchased by the Share Award Scheme Trust.

As at 31 December 2017, the Share Award Scheme Trust held 3,021,000 Shares (2016: 3,021,000 Shares). On 16 June 2017, the Board resolved to grant a total of 2,050,000 Shares (the "Awarded Shares") to 18 persons who are Eligible Participants pursuant to the Scheme. Details of the grant are as follows:

Name of Awardees	Position	Number of Awarded Shares Granted
Mr. Chan Yu Ling, Abraham	Executive director	300,000
Dr. Tsoi Kam Biu, Alvin	Executive director	150,000
Mr. Chan Lung Sang	Executive director	150,000
Ms. Man Yee Wai, Viola	Executive director	150,000
Mr. Chan Kin Man, Eddie	Executive director	20,000
Dr. Chan Kin Keung, Eugene	Independent non-executive director	20,000
Mr. Ho Kwok Wah, George	Independent non-executive director	20,000
Dr. Leung Lim Kin, Simon	Independent non-executive director	20,000
Prof. Tsui Lap Chee	Independent non-executive director	20,000
Remaining nine Awardees who are Eligible Employees and are not connected persons (as defined in the Listing Rules) of the Company		1,200,000
		2,050,000

The Group recognized a share award expense of HK$2,226,000 during the year ended 31 December 2017.

CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, which are not exempt from the annual reporting requirement of Chapter 14A of the Listing Rules:

Continuing connected transactions

On 18 June 2015, our Company entered into a master purchase agreement (the "Master Purchase Agreement") with Gold Sparkle Plantation Holdings Limited ("Gold Sparkle Plantation"), pursuant to which the Group agreed to purchase raw Chinese herbs from Gold Sparkle Plantation or its subsidiaries ("Gold Sparkle Plantation Group") for a term commencing from 1 January 2015 to 31 December 2017. The Group acquired the subsidiaries of Gold Sparkle Plantation on 19 April 2017 (the "Acquisition"). Prior to the Acquisition, Gold Sparkle Plantation is indirectly 60% owned by Mr. Chan Yu Ling, Abraham, the Company's Director and controlling shareholder. During the period of 1 January 2017 to 19 April 2017, the Group purchase raw Chinese herbs of HK$462,000 from Gold Sparkle Plantation Group, which was within the annual cap of HK$11.5 million for the year ended 31 December 2017. Following the Acquisition, there is no continuing connected transactions with Gold Sparkle Plantation.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The related party transactions set out in note 35 to the financial statement constitute continuing connected transactions of the Company and the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules.

Connected transaction

During the year, the Group acquired Gold Sparkle (Guizhou) DZ Plantation Co., Ltd and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd from connected company of which the ultimate shareholder was Mr. Chan Yu Ling, Abraham, the Company's Director and controlling shareholder, at a consideration of HK$193,885,000, based on arm's length negotiation in reference to the appraised value determined by an independent third party valuer. Further details of the transactions are included in note 31 and note 35 to the financial statement.

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. Chan Yu Ling, Abraham, Ms. Man Yee Wai, Viola (collectively known as the "Covenantors") in favor 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.

CONTRACT OF SIGNIFICANCE

Save as disclosed in note 35 to the 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 report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 40 to the financial statements.

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
26 March 2018

INDEPENDENT AUDITOR'S REPORT

PuraPharm Corporation Limited - 2017 Annual Report

INDEPENDENT AUDITOR'S REPORT

EY 安永

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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 118 to 213, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 matters	How our audit addressed the key audit matters
Provision for impairment of trade and bills receivables	
As at 31 December 2017, the Group had trade and bills receivables of HK$242,603,000, after making a provision of HK$11,813,000. The determination as to whether a trade or bills receivable is collectable involves management's estimation. Specific factors management considers include the age of the balance, location of customers, credit histories, recent and historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall. We focused on this area because it requires a high level of management estimation and due to the materiality of the amounts involved. The related disclosures on provision for impairment of trade and bills receivables are included in notes 3 and 20 to the financial statements.	We assessed the Group's internal controls over the credit control of trade and bills receivables. We also reviewed managements' assessment regarding the recoverability of the Group's aged and overdue receivables by examining the historical repayments of different categories of the aged debts to evaluate the credit risk for each of these categories and evaluating the liquidity positions of the debtors with aged trade and bills receivables by reviewing their most recent financial statements provided by management of the Group, credit reports from independent third party credit agency, or available published financial information.

Key audit matters	How our audit addressed the key audit matters
Impairment of goodwill	
The carrying value of goodwill in the consolidated financial statements amounted to HK$155,685,000 as at 31 December 2017. 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 impairment test is based on the recoverable amount of each cash-generating unit to which the goodwill is allocated. 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 cash flow projections based on a financial budget covering a period of 5 to 8 years. This matter is significant to our audit because the balance is material and test process involves significant judgements. The Company's disclosures about the impairment of goodwill are included in notes 2.4, 3 and 17 to the financial statements, which specifically explain the key assumptions the management used for the calculation of the recoverable amount.	Our audit procedures included, among others, involving internal valuation specialists to assist us in evaluating the methodologies used by the Company for determining the recoverable amount, and assess if the discount rate and methodology used by the management was reasonable. We also examined the underlying data used such as the management projection on the future revenues and operating results by investigating whether the forecasts were consistent with the financial performance of each CGU during the year 2017; and examining the business development plans and historical annual growth of each CGU to evaluate the appropriateness of the growth rate of each CGU . We also inspected the adequacy of the disclosures of goodwill.

Key audit matters	How our audit addressed the key audit matters
Business combination	
The Group acquired 100% equity interests of K'an Herb Company, Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd., and SODX Co., Ltd. (collectively referred to as the "Target Companies"). The acquisition was settled by cash or a combination of cash and allotments of the Company's shares, on 7 March 2017, 19 April 2017 and 28 August 2017 (collectively referred to as the "Acquisition Dates"), respectively. Management engaged an independent external valuer to assess the fair values of the identifiable assets and liabilities of the Target Companies as at the Acquisition Dates. We identified the above business combination as a key audit matter because a significant degree of management's estimation and judgement were involved for the determination of the acquisition dates and fair values of the identifiable assets and liabilities as at the Acquisition Dates. Please refer to notes 2.4 and 31 to the financial statements for more information about above business combination.	Our audit procedures included, evaluating the appropriateness of the acquisition dates by inspecting the agreements and legal documents in relation to the business combination to analysis when the Group exercised control over the financial and operating policies of the Target Companies and obtained the respective rewards and risks of operation, involving internal valuation specialists to assist us in evaluating the methods, discount rates and market data used in the assessment of the fair value of the property, plant and Prepaid land lease payments; assessing the fair values measurement of biological assets via performing audit procedures as stipulated above in "*Valuation of Biological* assets"; and reviewing the measurement of goodwill. We also evaluated on the independence, competence and objectivity of the independent external valuer engaged by the management to determine the valuation of the identifiable assets and liabilities of the Target companies and the evaluated adequacy of disclosures of business combination.

Key audit matters	How our audit addressed the key audit matters
Valuation of biological assets	
The Group's biological assets comprise raw Chinese herbs. The balance of the Group's biological assets, which are measured at fair value, was HK$37,147,000 as at 31 December 2017. Management engaged an independent external valuer to assess the fair value of the Group's biological assets as at 31 December 2017. We identified the valuation of biological assets as a key audit matter because the valuation is dependent on certain key assumptions, which require the exercise of significant judgement and are subject to an inherent risk of misstatements . The Company's disclosures about the valuation of biological assets are included in notes 2.4 and 19 to the financial statements.	Our audit procedures included, among others, involving internal valuation specialists to assist us in evaluating the discount rate and methodologies used by the Company; and assessing the input data for the significant judgement and estimation on a sample basis by comparing the estimated yields and plantation periods and expected price and price growth rates with latest sales or plantation records and published market data. We also evaluated the independence, competence and objectivity of the independent external valuer engaged by the management to determine the valuation of the biological assets and evaluated the adequacy of the disclosures of biological assets.
Inventory provision	
As at 31 December 2017, the Group had inventories of HK$282,479,000, after making a provision of HK$3,365,000. The Group has over 800 types of concentrated Chinese medicine granule ("CCMG") products and Chinese healthcare products and need to maintain each inventory at an appropriate level to meet the diversified market needs. We focused on this area because significant judgements and estimation are required in determining the provision for inventory excess and obsolescence as these are based on forecast inventory usage or sales rate and a for future market condition. The related disclosures on inventory provision are included in notes 3 and 18 to the financial statements.	Our audit procedures included evaluating management's judgements and estimation to determine the appropriate carrying value of inventories. We also assessed the Group's internal controls over the inventory provision in particular its internal "inventory expiry status monitoring system" implemented by its Quality Control Department. We also examined the specific inventory items' remaining expiry period and compared the expected future sales of inventories to the recent sales prices and sales rates. Furthermore, we recalculated the expected provision based on these above key judgements and estimations.

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.

- 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.

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

- 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, related safeguards.

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 LEE MEE KWAN, HELENA.

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	591,566	535,986
Cost of sales		(195,708)	(187,182)
Gross profit		395,858	348,804
Other income and gains	5	31,162	10,796
Selling and distribution expenses		(191,753)	(154,380)
Administrative expenses		(206,987)	(154,001)
Other expenses		(1,082)	(3,221)
Finance costs	7	(16,867)	(9,331)
PROFIT BEFORE TAX	6	10,331	38,667
Income tax expense	10	(8,442)	(6,505)
PROFIT FOR THE YEAR		1,889	32,162
Attributable to:			
Owners of the parent		1,889	32,162
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
— For profit for the year (expressed in HK cents per share)		0.79	14.39
Diluted			
— For profit for the year (expressed in HK cents per share)		0.79	14.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR	1,889	32,162
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(1,201)	413
Income tax effect	198	(68)
	(1,003)	345
Exchange differences on translation of foreign operations	17,803	(17,757)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	16,800	(17,412)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	18,689	14,750
Attributable to:		
Owners of the parent	18,689	14,750

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	297,059	117,383
Prepaid land lease payments	14	47,854	23,070
Intangible assets	15	35,175	26,470
Available-for-sale investments	16	22,110	13,760
Biological assets	19	18,903	–
Prepayments for non-current assets	21	8,693	8,845
Deferred tax assets	27	16,313	12,200
Goodwill	17	155,685	–
Total non-current assets		601,792	201,728
CURRENT ASSETS			
Inventories	18	282,479	167,064
Biological assets	19	18,244	–
Trade and bills receivables	20	242,603	231,689
Prepayments, deposits and other receivables	21	53,054	39,638
Pledged bank deposits	22	9,000	11,000
Cash and cash equivalents	22	86,805	209,129
Total current assets		692,185	658,520
CURRENT LIABILITIES			
Trade and bills payables	23	112,195	74,191
Other payables and accruals	24	69,831	58,341
Interest-bearing bank and other borrowings	25	493,744	261,048
Tax payable		5,050	7,227
Government grants	26	3,274	1,953
Total current liabilities		684,094	402,760
NET CURRENT ASSETS		8,091	255,760
TOTAL ASSETS LESS CURRENT LIABILITIES		609,883	457,488

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	54,277	–
Government grants	26	3,731	1,399
Deferred tax liabilities	27	2,793	1,584
Total non-current liabilities		60,801	2,983
Net assets		549,082	454,505
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	191,981	174,375
Shares held for share award scheme	29 (b)	(10,019)	(10,019)
Reserves	30	367,120	290,149
Total equity		549,082	454,505

Mr. Chan Yu Ling, Abraham
Director

Dr. Tsoi Kam Biu, Alvin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital HK$'000 (note 28)	Share premium account HK$'000 (note 28)	Shares held for share award scheme HK$'000 (note 29(b))	Merger reserve HK$'000 (note 30)	Surplus reserves HK$'000 (note 30)	Capital reserve HK$'000 (note 30)	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	174,375	170,552	–	1,814	24,685	(7,505)	124	280	105,385	469,710
Profit for the year	–	–	–	–	–	–	–	–	32,162	32,162
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	345	–	–	345
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(17,757)	–	(17,757)
Total comprehensive income for the year	–	–	–	–	–	–	345	(17,757)	32,162	14,750
Final 2015 dividend **	–	(19,936)	–	–	–	–	–	–	–	(19,936)
Purchase of shares held for shard award scheme	–	–	(10,019)	–	–	–	–	–	–	(10,019)
At 31 December 2016	174,375	150,616	(10,019)	1,814	24,685	(7,505)	469	(17,477)	137,547	454,505

	Attributable to owners of the parent										
	Share capital HK$'000 (note 28)	Share premium account HK$'000 (note 28)	Shares held for share award scheme HK$'000 (note 29(b))	Share award reserve HK$'000 (note 29(b))	Merger reserve HK$'000 (note 30)	Surplus reserves HK$'000 (note 30)	Capital reserve HK$'000 (note 30)	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	174,375	150,616	(10,019)	–	1,814	24,685	(7,505)	469	(17,477)	137,547	454,505
Profit for the year	–	–	–	–	–	–	–	–	–	1,889	1,889
Other comprehensive income for the year:											
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	(1,003)	–	–	(1,003)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	17,803	–	17,803
Total comprehensive income for the year	–	–	–	–	–	–	–	(1,003)	17,803	1,889	18,689
Transfer from retained profits	–	–	–	–	–	2,622	–	–	–	(2,622)	–
Final 2016 dividend declared **	–	(4,942)	–	–	–	–	–	–	–	–	(4,942)
Issue of ordinary shares for equity consideration for acquisition of subsidiaries (note 28)	17,606	60,998	–	–	–	–	–	–	–	–	78,604
Recognition of equity-settled share award	–	–	–	2,226	–	–	–	–	–	–	2,226
At 31 December 2017	191,981	206,672*	(10,019)	2,226*	1,814*	27,307*	(7,505)*	(534)*	326*	136,814*	549,082

* These reserve accounts comprise the consolidated reserves of HK$367,120,000 (2016: HK$290,149,000) in the consolidated statement of financial position as at 31 December 2017.

** Dividend paid to the share award schemes (note 29 (b)) of HK$62,000 (2016: HK$67,000) is deducted from the aggregate of dividends proposed and paid.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,331	38,667
Adjustments for:			
Finance costs	7	16,867	9,331
Bank interest income	5	(450)	(710)
Foreign exchange (gain)/loss, net	6	(9,138)	1,739
Fair value gain on biological assets	5	(9,102)	–
(Gain)/loss on disposal of items of property, plant and equipment	6	(123)	100
Equity-settled share award expense	29(b)	2,226	–
Depreciation	13	23,148	13,971
Amortisation of prepaid land lease payments	14	629	526
Amortisation of intangible assets	15	3,688	2,570
Write-down of inventories to net realisable value	18	3,216	1,608
Impairment of trade and bills receivables	20	6,842	3,708
		48,134	71,510
Increase in inventories		(68,537)	(69,807)
Increase in biological assets		(13,268)	–
(Increase)/decrease in trade and bills receivables		32,713	(85,840)
Increase in prepayments, deposits and other receivables		(32,379)	(3,975)
Increase in trade payables		14,695	40,009
Increase in government grants		3,351	561
Increase/(decrease) in other payables and accruals		(14,230)	705
Cash used in operations		(29,521)	(46,837)
Interest received		450	710
Hong Kong profits tax paid		(327)	(703)
Overseas profits tax paid		(889)	–
PRC profit taxes paid		(12,465)	(8,998)
Net cash flows used in operating activities		(42,752)	(55,828)

	Notes	2017 HK$'000	2016 HK$'000
Net cash flows used in operating activities		(42,752)	(55,828)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(101,628)	(41,284)
Proceeds from disposal of items of property, plant and equipment		744	–
Addition to prepaid land lease payments		(10,227)	–
Additions to intangible assets		(12,697)	(18,924)
Acquisition of subsidiaries	31	(161,742)	–
Purchases of available-for-sale investments		(9,551)	–
(Increase)/decrease in pledged time deposits, net		2,000	(5,000)
Net cash flows used in investing activities		(293,101)	(65,208)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		604,034	426,568
Repayment of bank loans and other borrowings		(375,968)	(284,581)
Interest paid		(18,945)	(9,331)
Purchase of shares held for share award scheme	29(b)	–	(10,019)
Dividends paid	11	(4,942)	(19,936)
Net cash flows from financing activities		204,179	102,701
NET DECREASE IN CASH AND CASH EQUIVALENTS		(131,674)	(18,335)
Cash and cash equivalents at beginning of year		209,129	232,243
Effect of foreign exchange rate changes, net		9,350	(4,779)
CASH AND CASH EQUIVALENTS AT END OF YEAR		86,805	209,129
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	86,805	209,129
Cash and cash equivalents as stated in the statement of cash flows		86,805	209,129

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the 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, as well as the rendering of Chinese medical diagnostic services. After the acquisition of the plantation businesses in April 2017 (note 31), the Group's activities also include the plantation and trading of raw Chinese herbs, and the manufacture and sale of Traditional Chinese Medicine ("TCM") decoction pieces ("中藥飲片").

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 principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PuraPharm Holdings Limited[a]	BVI	United States dollar ("US$") 1	100%	–	Investment holding
Natural Corporation Limited[a]	Hong Kong	HK$100	–	100%	Trading of Chinese healthcare products
PuraPharm International (H.K.) Limited[b]	Hong Kong	HK$2,000,000	–	100%	Manufacture and trading of Chinese healthcare products
Nong's International Limited[a]	BVI	US$1	–	100%	Investment holding and trading of Chinese healthcare products and modernised Chinese medicines

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	Percentage of equity attributable to the Company Indirect	Principal activities
PuraPharm (Nanning) Pharmaceuticals Co. Limited[(a), (d)]	People's Republic of China ("PRC")/ Mainland China	Chinese yuan ("RMB") 30,000,000	–	100%	Manufacture and trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm International (Singapore) Pte Limited[(a)]	Singapore	Singapore dollar 2	–	100%	Trading of Chinese healthcare products
PuraPharm Corporation[(a)]	United States of America	US$1,000	–	100%	Trading of Chinese healthcare products
Nong's Corporation Limited[(a)]	BVI	US$25,019	–	100%	Investment holding
PuraPharm Research Corporation Limited[(a)]	Hong Kong	HK$10,000	–	100%	Research and development of modernised Chinese medicines
PuraPharm International Limited[(a)]	Hong Kong	HK$2	–	100%	Trading of Chinese healthcare products
Nong's Company Limited[(b)]	Hong Kong	HK$2	–	100%	Trading of modernised Chinese medicines
Nong's Chinese Medicine Health Care Centre Limited[(a)]	Hong Kong	HK$10,000	–	100%	Provision of Chinese medical diagnostic services
Poly Modern TCM Research Institute Limited[(a)]	Hong Kong	HK$48,160,000	–	100%	Trading of Chinese healthcare products
Nong's Clinic Holdings Limited[(a)]	BVI	US$1,283	–	100%	Investment holding
Nong's Chinese Medicine Clinic Centre Limited[(a)]	Hong Kong	HK$2	–	100%	Provision of Chinese medical diagnostic services
PuraPharm Investment Limited[(a)]	Hong Kong	HK$1	–	100%	Trading of Chinese medicines
PuraPharm Australia Pty Ltd[(a)]	Australia	Australian Dollar ("AU$") 1	–	100%	Trading of Chinese healthcare products

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	Percentage of equity attributable to the Company Indirect	Principal activities
PuraPharm Health Limited[(a)]	BVI	US$1	–	100%	Investment holding
PuraPharm (Macao) Limited[(a)]	Macau	MOP25,000	–	100%	Trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm Canada Corporation[(a)]	Canada	HK$100	–	100%	Trading of Chinese healthcare products
Nong's (Guangxi) Company Limited[(a)]	Hong Kong	HK$10,000	–	100%	Investment holding
南寧培力醫藥技術有限公司[(a), (d)]	PRC/Mainland China	RMB2,000,000	–	100%	Research and development of Chinese healthcare products and modernised Chinese medicines
Nong's Healthcare 1 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 2 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 3 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 4 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 5 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 6 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 7 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services

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 8 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 9 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 10 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 11 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 12 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 13 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 14 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 15 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 16 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 17 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 18 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 19 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services

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 20 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 21 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 22 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 23 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 24 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 25 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 26 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 27 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 28 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 29 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 30 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
PuraPharm Japan Corporation[(a)]	Japan	Japanese yen ("JPY") 10,000	–	100%	Research and development of new products

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
K'an Herb Company, Inc.[a]	United States of America ("USA")	US$233,848	–	100%	Manufacture and sale of Chinese herbal products
Gold Sparkle (Guizhou) Chinese Medicine Co.,Ltd.[c] [d]	PRC	RMB48,000,000	–	100%	Plantation and trading of raw Chinese herbs
Gold Sparkle (Guizhou) HZ Plantation Co., Ltd.[c] [d]	PRC	RMB20,000,000	–	100%	Plantation and trading of raw Chinese herbs
SODX Co., Ltd. [a]	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 [a] [d]	PRC	RMB2,000,000	–	100%	Provision of Chinese medical diagnostic services
上海農本方中醫門診部有限公司 [a] [d]	PRC	RMB3,500,000	–	100%	Provision of Chinese medical diagnostic services
Nanning Nong's Medical Consulting Company Limited[a] [d]	PRC	RMB15,000,000	–	100%	Provision of Chinese medical consultation services

(a) The financial statements of these subsidiaries were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

(c) The statutory financial statements of these entities prepared under the PRC Generally Accepted Accounting Principles were audited by Ernst & Young Hua Ming (LLP).

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

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 available-for-sales investments 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.

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 2017. 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.

2.1 BASIS OF PREPARATION (continued)

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.

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 HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flow and non-cash changes. Disclosures of the changes in liabilities arising from financing activities is provided in note 32 to these financial statements.

Other than as explained above regarding the impact of amendments to HKAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements of the Group.

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 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to the following two HKFRSs: — HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*[1] — HKAS 28 *Investments in Associates and Joint Ventures*[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS3, HKFRS11, HKAS12 and HKAS23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Other than explained below regarding the impact of HKFRS 9, HKFRS 15 and HKFRS 16, the Group expects that the adoption of the above new and revised standards will have no significant impact on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

All recognised financial assets that are within the scope of HKAS 39 are subsequently measured at amortised cost or fair value under HKFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. All of the above represent new requirements for classification and measurement for financial assets under HKFRS 9 that will change the way the Group classifies and measures its financial assets under "financial assets at fair value through profit or loss", "loans and receivables" and "available-for-sale financial assets" under the existing HKAS 39.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) Impairment (continued)

The Group is analysing its business models, contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of HKFRS 9. Given the nature of the Group's operation, it is expected that (1) the classification of the Group's available-for-sale investments under the existing HKAS 39 would be changed to "financial assets at fair value through profit or loss"; (2) the cumulative unrealised loss arising from the changes in fair value of the Group's available-for-sale financial assets before the adoption of HKFRS 9 of HK$534,000 would be reclassified from "available-for-sale investment revaluation reserve" to "retained profits"; (3) the unrealised gain or loss arising from the changes in fair value of the Group's financial assets at fair value through profit or loss since the adoption of HKFRS 9 would be recognised in profit or loss; and (4) the impact regarding the impairments of the Group's financial instruments from these changes would not be material.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The Group has assessed that the adoption of HKFRS 15 will not have a significant impact on the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) Impairment (continued)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 33 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$68,010,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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.

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 net 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories 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.

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded 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 available-for-sale investments, cash and cash equivalents, pledged bank deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest earned whilst holding the available-for-sale financial investments are reported as interest income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, as appropriate.

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

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

Subsequent measurement

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

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.

Derecognition of financial liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are 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 the 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 the 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 assets can not 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 the 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward 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 carryforward 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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, 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.

Revenue recognition

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 29 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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 weighted average exchange rates for the year.

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. Further details are given in note 17 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

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

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 27 to the financial statements.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group considers various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

Impairment of trade and other receivables

The policy for provision for impairment loss of the Group is based on the evaluation of collectability, the aging analysis of trade and other receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Further details are given in notes 20 and 21 to the financial statements.

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 18 to the financial statements.

Estimation of fair value of biological assets

The biological assets are stated at fair values less cost to sell. This requires an independent valuer's assessment of the fair value of the biological assets. Changes in conditions of the biological assets could impact the fair value of the assets. Further details are given in note 19 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

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

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2017 and 2016.

31 December 2017

	China CCMG HK$'000	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Plantation HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue:							
Revenue to external customers	221,526	180,987	85,120	77,565	26,368	–	591,566
Intersegment sales	126,860	15,234	2,439	–	13,121	(157,654)	–
	348,386	196,221	87,559	77,565	39,489	(157,654)	591,566
Segment results	16,090	45,095	6,225	(6,975)	2,848	–	63,283
Reconciliations:							
Government grants							8,755
Interest income							450
Foreign exchange gain, net							9,138
Fair value gain on biological assets, net							9,102
Equity-settled share award scheme							(2,226)
Finance costs							(16,867)
Corporate and other unallocated expenses							(61,304)
Profit before tax							10,331
Income tax expense							(8,442)
Net profit							1,889
Other segment information:							
Depreciation and amortisation	14,106	2,379	2,958	6,359	1,663	–	27,465
Write-down of inventories to net realisable value	2,477	739	–	–	–	–	3,216
Impairment of trade and bills receivables	6,842	–	–	–	–	–	6,842

4. OPERATING SEGMENT INFORMATION (continued)

31 December 2016

	China CCMG HK$'000	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue:						
Revenue to external customers	269,283	166,622	47,093	52,988	–	535,986
Intersegment sales	111,662	10,559	1,431	–	(123,652)	–
	380,945	177,181	48,524	52,988	(123,652)	535,986
Segment results	62,261	38,499	(5,794)	(8,670)	–	86,296
Reconciliations:						
Government grants						7,780
Interest income						710
Foreign exchange gain, net						(1,739)
Finance costs						(9,331)
Corporate and other unallocated expenses						(45,049)
Profit before tax						38,667
Income tax expense						(6,505)
Net profit						32,162
Other segment information:						
Depreciation and amortisation	9,325	1,825	1,556	4,361	–	17,067
Write-down of inventories to net realisable value	832	776	–	–	–	1,608
Impairment of trade and bills receivables	1,857	–	1,851	–	–	3,708

Geographical information

(a) Revenue from external customers

	2017 HK$'000	2016 HK$'000
Hong Kong	306,129	266,191
Mainland China	249,160	269,795
Other countries/regions	36,277	–
	591,566	535,986

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2017 HK$'000	2016 HK$'000
Hong Kong	51,566	52,626
Mainland China	469,609	123,142
Other countries/regions	42,194	–
	563,369	175,768

The non-current asset information above is based on the locations of the assets and excludes available-for-sale investments and deferred tax assets.

Information about major customer

For the years ended 31 December 2017 and 2016, there was no single customer from which more than 10% of the Group's total revenue was derived.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of services rendered during the year.

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

	Note	2017 HK$'000	2016 HK$'000
Revenue			
Sale of CCMG and Chinese healthcare products		543,213	521,069
Sale of raw Chinese herbs		26,368	–
Rendering of Chinese medical diagnostic services		21,985	14,917
		591,566	535,986
Other income and gains			
Fair value gain on biological assets, net	19	9,102	–
Foreign exchange gain, net		9,138	–
Government grants*		8,755	7,780
Gain from the sale of equipment and accessories		2,393	2,201
Bank interest income		450	710
Others		1,324	105
		31,162	10,796

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

6. PROFIT BEFORE TAX

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

	Note	2017 HK$'000	2016 HK$'000
Cost of inventories sold		185,163	179,934
Cost of services provided		10,545	7,248
Depreciation	13	23,148	13,971
Amortisation of:			
Prepaid land lease payments	14	629	526
Intangible assets	15	3,688	2,570
		4,317	3,096
Research and development costs*		19,284	18,115
Minimum lease payments under operating leases:			
Office equipment		215	226
Land and buildings		33,783	23,152
		33,998	23,378
Auditors' remuneration		3,115	2,305
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		103,909	101,283
Pension scheme contributions		14,750	12,467
Equity-settled share option expense		1,301	–
		119,960	113,750
Foreign exchange (gain)/loss, net**		(9,138)	1,739
Impairment of trade and bills receivables	20	6,842	3,708
Write-down of inventories to net realisable value***	18	3,216	1,608
Fair value gain on biological assets, net:	5, 19	(9,102)	–
(Gain)/loss on disposal of items of property, plant and equipment		(123)	224

* HK$848,000 (2016: HK$632,000) disclosed in the item of "Depreciation" and HK$6,915,000 (2016: HK$8,709,000) disclosed in the item of "Employee benefit expense" were also included in the item of "Research and development costs".

** The foreign exchange gain, net was included in "Other income" in the consolidated statement of profit or loss for the year ended 31 December 2017.

The foreign exchange loss, net was included in "Other expenses" in the consolidated statement of profit or loss for the year ended 31 December 2016.

*** 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 2017 and 2016.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK$'000	2016 HK$'000
Interest on bank loans and other borrowings	18,945	9,331
Less: Interest capitalised	(2,078)	–
	16,867	9,331

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	
	2017 HK$'000	2016 HK$'000
Fees	1,000	1,000
Other emoluments:		
Salaries, allowances and benefits in kind	7,846	11,656
Pension scheme contributions	57	60
Equity-settled share award scheme	925	–
	8,828	11,716
	9,828	12,716

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

(a) Independent non-executive directors

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

2017	**Fees** **HK$'000**	**Equity-settled share award scheme** **HK$'000**	**Total remuneration** **HK$'000**
Dr. Leung Lim Kin, Simon	**200**	**22**	**222**
Prof. Tsui Lap Chee	**200**	**22**	**222**
Dr. Chan Kin Keung, Eugene	**200**	**22**	**222**
Mr. Ho Kwok Wah, George	**200**	**22**	**222**
	800	**88**	**888**

2016	Fees HK$'000
Dr. Leung Lim Kin, Simon	200
Prof. Tsui Lap Chee	200
Dr. Chan Kin Keung, Eugene	200
Mr. Ho Kwok Wah, George	200
	800

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2017 and 2016.

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

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

	Fees HK$'000	Equity-settled share award scheme HK$'000	Salaries, compensation, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Chief executive and executive director					
Mr. Chan Yu Ling, Abraham	–	326	3,638	18	3,982
Executive directors					
Mr. Chan Kin Man, Eddie*	200	22	–	–	222
Dr. Tsoi Kam Biu, Alvin	–	163	1,643	18	1,824
Ms. Man Yee Wai, Viola	–	163	1,232	18	1,413
Mr. Chan Lung Sang	–	163	1,333	3	1,499
	200	511	4,208	39	4,958
	200	837	7,846	57	8,940

* On 15 November 2017, Mr. Chan Kin Man, Eddie was appointed as the executive director of the Group by the board of directors.

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

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016				
Chief executive and executive director				
Mr. Chan Yu Ling, Abraham	–	4,659	18	4,677
Executive directors				
Mr. Leung Chin Man	–	3,223	–	3,223
Dr. Tsoi Kam Biu, Alvin	–	1,884	18	1,902
Ms. Man Yee Wai, Viola	–	1,413	18	1,431
Mr. Chan Lung Sang	–	477	6	483
	–	6,997	42	7,039
Non-executive director				
Mr. Chan Kin Man, Eddie	200	–	–	200
	200	11,656	60	11,916

There was no arrangement under which executive directors waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2016: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	5,471	6,100
Pension scheme contributions	54	54
	5,525	6,154

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

	Number of employees 2017	 2016
HK$1,500,001 to HK$2,000,000	3	2
HK$2,000,001 to HK$2,500,000	–	1
	3	3

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong, U.S. and Japan profits taxes have been provided at the rates of 16.5%, 40% and 40% on the estimated assessable profits arising in Hong Kong during the years ended 31 December 2017 and 2016. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, PuraPharm (Nanning) Pharmaceuticals Co., Limited ("PuraPharm Nanning"), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15%.

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

10.INCOME TAX (continued)

	2017 HK$'000	2016 HK$'000
Current	11,158	10,457
Deferred (note 27)	(2,716)	(3,952)
Total tax charge for the year	8,442	6,505

A reconciliation of the tax expense applicable to 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:

2017

	Mainland China		Hong Kong		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	23,430		2,963		(16,062)		10,331	
Tax at the statutory tax rates	5,858	25.0	489	16.5	(1,645)	10.2	4,702	45.5
Lower tax rate enacted by local authority	(3,335)	(14.2)	–	–	–	–	(3,335)	(32.3)
Income not subject to tax	–	–	(321)	(10.8)	(553)	3.4	(874)	(8.5)
Expenses not deductible for tax	169	0.7	678	22.9	213	(1.3)	1,060	10.3
Tax losses utilised from previous years	–	–	983	33.2	–	–	983	9.5
Tax losses not recognised	929	4.0	2,395	80.8	2,582	(16.1)	5,906	57.2
Tax charge at the Group's effective rate	3,621	15.5	4,224	142.6	597	(3.8)	8,442	81.7

10. INCOME TAX (continued)

2016

	Mainland China		Hong Kong		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	69,832		(13,950)		(17,215)		38,667	
Tax at the statutory tax rates	17,459	25.0	(2,298)	16.5	(2,888)	16.8	12,273	31.7
Lower tax rate enacted by local authority	(7,063)	(10.1)	–	–	–	–	(7,063)	(18.3)
Adjustment in respect of current tax of previous years	–	–	(782)	5.6	–	–	(782)	(2.0)
Expenses not deductible for tax	214	0.3	28	(0.2)	–	–	242	0.6
Tax losses utilised from previous years	–	–	(1,053)	7.5	–	–	(1,053)	(2.7)
Tax losses not recognised	–	–	–	–	2,888	(16.8)	2,888	7.5
Tax charge at the Group's effective rate	10,610	15.2	(4,105)	29.4	–	–	6,505	16.8

11. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Proposed final — Nil (2016: HK2.02 cents) per ordinary share	–	4,545

No dividend was proposed for the year ended 31 December 2017.

The 2016 proposed final dividends of HK$4,545,000 and dividend of HK$459,000 for shares subsequently issued on 19 April 2017 (note 31) have been approved by shareholders at the annual general meeting on 26 May 2017. The net dividends of HK$4,942,000, after deducting dividends of HK$62,000 paid to the share award scheme (note 29(b)), were subsequently distributed in June 2017.

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

	2017	2016
Earnings per share attributable to ordinary equity holders of the parent		
— Basic (HK cents)	0.79	14.39
— Diluted (HK cents)	0.79	14.39

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year ended 31 December 2017 excluding ordinary shares purchased by the Group and held for Award Scheme (note 29(b)).

	2017	2016
Profit attributable to ordinary equity holders of the parent (HK$'000)	1,889	32,162
Weighted average number of ordinary shares in issue	237,974,905	223,444,571
Basic earnings per share (expressed in HK cents per share)	0.79	14.39

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

(a) Basic (continued)

The calculation of the weighted average number of ordinary shares amounting to 237,974,905 (2016: 223,444,571) in issue for the year ended 31 December 2017, as adjusted to reflect the shares held for Award Scheme and effect of issue of shares on 19 April 2017, is as follows:

	Notes	2017	2016
Number of issued shares on 1 January	28	225,000,000	225,000,000
Adjustment for shares held for Award Scheme	29(b)	(3,021,000)	(1,555,429)
Effect of issue of shares on 19 April 2017	31	15,995,905	–
Weighted average number of ordinary shares		237,974,905	223,444,571

(b) Diluted

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

	Note	2017	2016
Profit attributable to the ordinary equity holders of the parent (HK$'000)		1,889	32,162
Weighted average number of ordinary shares in issue during the year		237,974,905	223,444,571
Adjustment for Award Shares	29 (b)	1,117,671	–
Weighted average number of ordinary shares for diluted earnings per share calculation		239,092,576	223,444,571
Diluted earnings per share (expressed in HK cents per share)		0.79	14.39

13. PROPERTY, PLANT AND EQUIPMENT

	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 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	26,980	29,414	95,667	20,578	5,472	17,960	196,071
Accumulated depreciation	(5,497)	(10,004)	(47,143)	(13,432)	(2,612)	–	(78,688)
Net carrying amount	21,483	19,410	48,524	7,146	2,860	17,960	117,383
Cost at 1 January 2017, net of accumulated depreciation	21,483	19,410	48,524	7,146	2,860	17,960	117,383
Additions	123	12,383	10,630	7,590	2,818	43,537	77,081
Interest capitalised	–	–	–	–	–	2,078	2,078
Acquisition of subsidiaries (Note 31)	36,461	271	6,025	432	651	70,337	114,177
Disposals	–	(345)	(55)	(87)	(134)	–	(621)
Depreciation provided during the year	(1,768)	(7,621)	(9,607)	(3,471)	(681)	–	(23,148)
Transfers	26,673	2,304	11,592	–	–	(40,569)	–
Exchange realignment	2,708	172	3,319	318	149	3,443	10,109
At 31 December 2017	85,680	26,574	70,428	11,928	5,663	96,786	297,059
At 31 December 2017:							
Cost	93,337	44,245	129,872	29,164	8,952	96,786	402,356
Accumulated depreciation	(7,657)	(17,671)	(59,444)	(17,236)	(3,289)	–	(105,297)
Net carrying amount	85,680	26,574	70,428	11,928	5,663	96,786	297,059

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	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 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	27,324	17,971	83,019	16,660	5,532	11,890	162,396
Accumulated depreciation	(5,079)	(6,062)	(43,350)	(12,293)	(1,899)	–	(68,683)
Net carrying amount	22,245	11,909	39,669	4,367	3,633	11,890	93,713
Cost at 1 January 2016, net of accumulated depreciation	22,245	11,909	39,669	4,367	3,633	11,890	93,713
Additions	435	11,443	9,788	4,820	–	16,072	42,558
Disposals	–	–	(2)	(98)	–	–	(100)
Depreciation provided during the year	(754)	(3,942)	(6,720)	(1,826)	(729)	–	(13,971)
Transfers	1,023	–	8,293	–	–	(9,316)	–
Exchange realignment	(1,466)	–	(2,504)	(117)	(44)	(686)	(4,817)
At 31 December 2016	21,483	19,410	48,524	7,146	2,860	17,960	117,383
At 31 December 2016:							
Cost	26,980	29,414	95,667	20,578	5,472	17,960	196,071
Accumulated depreciation	(5,497)	(10,004)	(47,143)	(13,432)	(2,612)	–	(78,688)
Net carrying amount	21,483	19,410	48,524	7,146	2,860	17,960	117,383

As at 31 December 2017, certain of the Group's buildings, machinery and equipment and office equipment and furniture with an aggregate net carrying amount of approximately HK$137,113,000 (2016: HK$54,124,000) were pledged to secure bank loans granted to the Group (note 25).

14. PREPAID LAND LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	23,576	25,789
Addition	10,227	–
Acquisition of subsidiaries (note 31)	14,510	–
Recognised during the year	(629)	(526)
Exchange realignment	2,248	(1,687)
Carrying amount at 31 December	49,932	23,576
Current portion included in prepayments, deposits and other receivables	(2,078)	(506)
Non-current portion	47,854	23,070

The leasehold land is situated in Mainland China and is held under a long term lease.

As at 31 December 2017, certain of the Group's leasehold land with a net carrying amount of approximately HK$25,696,000 (2016: HK$2,779,000) were pledged to secure bank loans granted to the Group (note 25).

15. INTANGIBLE ASSETS

	Trademarks HK$'000	Patents HK$'000	Licences HK$'000	Software HK$'000	Total HK$'000
31 December 2017					
At 31 December 2016 and at 1 January 2017:					
Cost	20,699	674	1,281	12,177	34,831
Accumulated amortisation	(4,764)	(435)	(1,281)	(1,881)	(8,361)
Net carrying amount	15,935	239	–	10,296	26,470
Cost at 1 January 2017, net of accumulated amortisation	15,935	239	–	10,296	26,470
Additions	6,687	–	–	5,242	11,929
Acquisition of subsidiaries (note 31)	38	–	–	341	379
Amortisation provided during the year	(1,580)	(50)	–	(2,058)	(3,688)
Exchange realignment	–	–	–	85	85
At 31 December 2017	21,080	189	–	13,906	35,175
At 31 December 2017:					
Cost	27,424	674	1,281	17,890	47,269
Accumulated amortisation	(6,344)	(485)	(1,281)	(3,984)	(12,094)
Net carrying amount	21,080	189	–	13,906	35,175

15.INTANGIBLE ASSETS (continued)

	Trademarks HK$'000	Patents HK$'000	Licences HK$'000	Software HK$'000	Total HK$'000
31 December 2016					
At 31 December 2015 and at 1 January 2016:					
Cost	10,843	601	1,281	2,062	14,787
Accumulated amortisation	(3,517)	(376)	(1,281)	(674)	(5,848)
Net carrying amount	7,326	225	–	1,388	8,939
Cost at 1 January 2016, net of accumulated amortisation	7,326	225	–	1,388	8,939
Additions	9,856	73	–	10,253	20,182
Amortisation provided during the year	(1,247)	(59)	–	(1,264)	(2,570)
Exchange realignment	–	–	–	(81)	(81)
At 31 December 2016	15,935	239	–	10,296	26,470
At 31 December 2016:					
Cost	20,699	674	1,281	12,177	34,831
Accumulated amortisation	(4,764)	(435)	(1,281)	(1,881)	(8,361)
Net carrying amount	15,935	239	–	10,296	26,470

16. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Life insurance policies, at fair value	22,110	13,760

The Group entered into three life insurance policies with the insurance companies to insure an executive director. Under these policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for these policies and may surrender any time by filing a written request and receive cash based on the surrender value of the policy at the date of withdrawal, which is calculated by the insurer. In the opinion of the Directors, the surrender values of the policies provided by the insurance companies are the best approximation of their fair values, which are categorised within Level 3 of the fair value hierarchy.

During the year, the gross loss in respect of the changes in fair value of the Group's available-for-sale investments, net of tax, recognised in other comprehensive income amounted to HK$1,003,000 (2016: gross gain of HK$345,000, net of tax).

As at 31 December 2017, the Group's available-for-sale investments of HK$10,562,000 (2016: HK$2,570,000) were pledged as security for the loans granted to the Group (note 25).

17. GOODWILL

	2017 HK$'000
At 1 January	–
Acquisition of subsidiaries (note 31)	155,685
At 31 December	155,685

Impairment testing of goodwill

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

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

17. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

	31 December 2017 HK$'000
Plantation CGU	134,692
Chinese herbal products CGU	13,705
SODX CGU	7,288
	155,685

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

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

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

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

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

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

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

17. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

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

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

18. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	93,569	64,358
Work in progress	48,535	24,945
Finished goods	143,740	80,270
	285,844	169,573
Less: Provision	(3,365)	(2,509)
	282,479	167,064

For the year ended 31 December 2017, the write-down of inventories recognised at cost of sales amounted to HK$3,216,000 (2016: HK$1,608,000).

At 31 December 2017, the Group's inventories with a carrying amount of HK$41,479,000 (2016: HK$39,022,000) were pledged as security for the loans granted to the Group (note 25).

19. BIOLOGICAL ASSETS

	2017 HK$'000	2016 HK$'000
As at 1 January	–	–
Acquisition of subsidiaries (note 31)	13,243	–
Addition during the year	16,624	–
Fair value gain on biological assets, net	9,102	–
Harvest during the year	(2,889)	–
Exchange realignment	1,067	–
	37,147	–
Portion classified as non-current portion	(18,903)	–
Current portion	18,244	–

The biological assets of the Group are raw Chinese herbs. The Group harvested raw Chinese herbs with a fair value less estimated cost to sell of HK$2,889,000 (2016: Nil) during the year ended 31 December 2017.

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

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

(i) the raw Chinese herbs will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;

(ii) the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as life of raw Chinese herbs;

(iii) estimated yields of raw Chinese herbs are estimated based on the amount planted, health condition, expected death rate, and production conversion rate (from the number of plants to Chinese herbs in kg) if necessary;

(iv) the expected prices and price growth rate of raw Chinese herbs are estimated based on the historical average district prices; and

(v) a market-derived discount rate of 17% is applied to the projection of the Periodic Cash Flow.

19. 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.

20. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	246,915	234,652
Bills receivable	7,501	1,554
	254,416	236,206
Less: Impairment of trade and bills receivables	(11,813)	(4,517)
	242,603	231,689

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to six months, extending up to longer periods for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. As at 31 December 2017, the Group had certain concentrations of credit risk as 17% of the Group's trade and bills receivables were due from a company in which, Mr. He Ding Xiang ("Mr. He"), a director of the Plantation Subsidiaries held 25% of equity interests; and companies controlled by Mr. He. 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.

20. TRADE AND BILLS RECEIVABLES (continued)

An aging analysis of the trade and bills receivables as at 31 December 2017 and 2016, based on the invoice date and net of impairment, is as follows:

	2017 HK$'000	2016 HK$'000
Within 1 month	60,242	124,199
1 to 3 months	55,821	42,690
3 to 6 months	49,069	24,841
Over 6 months	77,471	39,959
	242,603	231,689

The movements in provision for impairment of trade and bills receivables are as follows:

	2017 HK$'000	2016 HK$'000
At beginning of year	4,517	1,029
Impairment losses recognised	6,842	3,708
Exchange realignment	454	(220)
	11,813	4,517

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of HK$11,813,000 (2016: HK$4,517,000) with a carrying amount before provision of HK$31,969,000 (2016: HK$16,277,000).

The individually impaired trade or bills receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

20. TRADE AND BILLS RECEIVABLES (continued)

The aging analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	107,148	156,620
Less than 1 month past due	41,078	31,212
1 to 2 months past due	10,352	5,575
2 to 3 months past due	4,725	3,935
Over 3 months past due	59,144	22,587
	222,447	219,929

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2017, trade receivables of HK$28,304,000 (2016: Nil) were pledged as security for the Group's bank loans (note 25).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	34,799	26,919
Receivables from third party agents	157	6,826
Deposits and other receivables	27,041	14,973
	61,997	48,718
Less: Impairment of other receivables	(250)	(235)
	61,747	48,483
Portion classified as non-current	(8,693)	(8,845)
Current portion	53,054	39,638

The movements in provision for impairment of other receivables are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	235	252
Exchange realignment	15	(17)
At 31 December	250	235

Included in the above provision for impairment of other receivables is provision for individually impaired other receivables of HK$250,000 (2016: HK$235,000) with a carrying amount before provision of HK$250,000 (2016: HK$235,000). The Group does not hold any collateral or other credit enhancements over these balances.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 HK$'000	2016 HK$'000
Cash and bank balances	86,805	209,129
Time deposits	9,000	11,000
	95,805	220,129
Less: Pledged time deposits for bank loans	(9,000)	(11,000)
Cash and cash equivalents	86,805	209,129
Denominated in RMB	42,918	21,782
Denominated in HK$	25,221	167,095
Denominated in US$	8,884	–
Denominated in JPY	7,489	14,691
Denominated in AU$	1,602	2,403
Denominated in CAD	691	3,158
Cash and cash equivalents	86,805	209,129

The Renminbi ("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.

23. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 HK$'000	2016 HK$'000
Within 1 month	35,891	35,736
1 to 2 months	15,056	22,687
2 to 3 months	15,331	12,747
Over 3 months	45,917	3,021
	112,195	74,191

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

Included in the trade and bills payables was an amount due to a related company of HK$147,000 as at 31 December 2016, which was settled on the term of two months.

Included in the trade and bills payables was an amount due to a company controlled by Mr. He of HK$16,606,000 as at 31 December 2017.

24. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Other payables	34,741	29,299
Accruals	30,064	26,794
Advance from customers	5,026	2,248
	69,831	58,341

Other payables are non-interest-bearing and have an average term of three months.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans — secured (a)	4.35–5.22	2018	123,301	–	–	–
Bank loans — secured (a)	3.06–5.22	On demand	36,861	2.70–5.22	On demand	109,270
Bank loans — unsecured (a)	1.85–6.00	On demand	333,582	1.90–6.00	On demand	151,778
			493,744			261,048
Non-Current						
Bank loans and other borrowings — secured	0.85–8.00	2021, 2028	39,463			–
Bank loans — unsecured	4.66	2022	14,814			–
			54,277			–
			548,021			261,048

	2017 HK$'000	2016 HK$'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	493,744	261,048
In the second year	4,303	–
In the third to fifth years, inclusive	47,932	–
Beyond five years	2,042	–
	548,021	261,048

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Interest-bearing bank and other borrowings are denominated in:

	2017 HK$'000	2016 HK$'000
HK$	363,311	166,778
RMB	173,668	94,270
JPY	3,910	–
US$	7,132	–
	548,021	261,048

(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$278,065,000 (2016: HK$261,048,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$4,875,000 (2016: HK$4,481,000) that is repayable after one year from the end of 2017 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 2017, the Group's bank loans amounting to approximately HK$195,888,000 (2016: HK$24,518,000) were not in compliance with certain financial loan covenants, among which a balance of HK$75,315,000 (2016: nil) that is repayable after one year from the end of 2017 has been classified as a current liability. The Group had obtained waivers for the non-compliance loans of HK$153,386,000 and no demand for immediate repayment was made in respect of relevant cash loans.

(c) As at 31 December 2017, the Group's bank facilities amounted to HK$651,369,000 (2016: HK$458,595,000), of which HK$548,021,000 (2016: HK$261,048,000) had been utilised.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

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

	Note	Carrying value 2017 HK$'000	2016 HK$'000
Property, plant and equipment	13	137,113	54,124
Prepaid land lease payments	14	25,696	2,779
Available-for-sale investments	16	10,562	2,570
Inventories	18	41,479	39,022
Trade and bills receivables	20	28,304	–
Pledged bank deposits	22	9,000	11,000
		252,154	109,495

26. GOVERNMENT GRANTS

	2017 HK$'000	2016 HK$'000
At 1 January	3,352	2,791
Government grants received during the year	12,182	8,511
Amounts released to the statement of profit or loss (note 5)	(8,755)	(7,780)
Exchange realignment	226	(170)
At 31 December	7,005	3,352
Portion classified as current liabilities	(3,274)	(1,953)
Non-current portion	3,731	1,399

27. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	2017					
	Available-for-sale investment revaluation HK$'000	Tax loss available for offsetting against future taxable profits HK$'000	Government grants HK$'000	Unrealised profit on inventories HK$'000	Provisions for receivables and inventories HK$'000	Total HK$'000
At 1 January 2017	43	11,584	498	1,329	1,178	14,632
Deferred tax credited to the statement of profit or loss during the year (note 10)	–	323	408	1,193	1,646	3,570
Deferred tax charged to other comprehensive income during the year	(198)	–	–	–	–	(198)
Acquisition of subsidiaries (note 31)	–	1,514	–	–	–	1,514
Exchange realignment	–	53	46	–	66	165
Gross deferred tax assets at 31 December 2017	(155)	13,474	952	2,522	2,890	19,683

	2016					
	Available-for-sale investment revaluation HK$'000	Tax loss available for offsetting against future taxable profits HK$'000	Government grants HK$'000	Unrealised profit on inventories HK$'000	Provisions for receivables and inventories HK$'000	Total HK$'000
At 1 January 2016	(25)	5,403	418	1,071	1,069	7,936
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	–	6,195	113	258	165	6,731
Deferred tax credited to other comprehensive income during the year	68	–	–	–	–	68
Exchange realignment	–	(14)	(33)	–	(56)	(103)
Gross deferred tax assets at 31 December 2016	43	11,584	498	1,329	1,178	14,632

27. DEFERRED TAX (continued)

Deferred tax liabilities

	2017		
	Depreciation and amortisation allowance in excess of related depreciation and amortisation HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2017	4,016	–	4,016
Acquisition of subsidiaries (note 31)	–	1,293	1,293
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	2,147	(1,293)	854
Gross deferred tax liabilities at 31 December 2017	6,163	–	6,163

	2016
	Depreciation and a mortisation allowance in excess of related depreciation and amortisation HK$'000
At 1 January 2016	1,237
Deferred tax charged to the statement of profit or loss during the year (note 10)	2,779
Gross deferred tax liabilities at 31 December 2016	4,016

27. DEFERRED TAX (continued)

Deferred tax liabilities (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:

	2017 HK$'000	2016 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	16,313	12,200
Net deferred tax liabilities recognised in the consolidated statement of financial position	(2,793)	(1,584)
	13,520	10,616

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 2017, 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$227,291,000 (2016: HK$171,359,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

Shares

A summary of movements in the Company's share capital and share premium account are as follows:

	2017 HK$'000	2016 HK$'000
Authorised: 50,000,000,000 ordinary shares of US$0.1 (HK$0.775) each	38,750,000	38,750,000
Issued and fully paid: 247,717,920 (31 December 2016: 225,000,000) ordinary shares of US$0.1 (HK$0.775) each	191,981	174,375

	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2017	225,000,000	174,375	150,616	324,991
Issue of ordinary shares for the equity consideration for acquisition of subsidiaries (note 31)	22,717,920	17,606	60,998	78,604
Final 2016 dividend declared (note 11)	–	–	(4,942)	(4,942)
At 31 December 2017	247,717,920	191,981	206,672	398,653

29. SHARE OPTION 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.

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

29. SHARE OPTION 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 2017 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.

During the year ended 31 December 2017, no share was purchased by the Share Award Scheme Trust through the Stock Exchange and the Share Award Scheme Trust received a cash dividend of HK$62,000 (2016: HK$67,000) which will be used to pay for the fees of the trust or acquire the Company's own ordinary shares.

As at 31 December 2017, the Share Award Scheme Trust held 3,021,000 (31 December 2016: 3,021,000) shares of the Company.

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.

29. SHARE OPTION SCHEME (continued)

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

Summary of the Award Shares granted is as follows:

Date of Grant	Number of outstanding Award Shares as at the Date of Grant	Fair value HK$'000	Vesting date	Number of Award Shares: Vested during the period	Number of Award Shares: Outstanding as at 31 Dec 2017
16 June 2017	615,000	2,295	16 June 2018	–	615,000
16 June 2017	410,000	1,529	16 June 2019	–	410,000
16 June 2017	410,000	1,529	16 June 2020	–	410,000
16 June 2017	410,000	1,529	16 June 2021	–	410,000
16 June 2017	205,000	765	16 June 2022	–	205,000
	2,050,000	7,647		–	2,050,000

The Group recognised a share award expense of HK$2,226,000 (2016: Nil) during the year ended 31 December 2017.

30. 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 entites' 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 additional non-controlling interest of a subsidiary, the difference between the cost of acquisition and the non-controlling interest acquired.

30. RESERVES (continued)

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.

31. BUSINESS COMBINATIONS

On 7 March 2017, the Group completed the acquisition of 100% equity interest of K'an Herb Company, Inc. ("Kan") at a total cash consideration of US$5,400,000 (equivalent to approximately HK$42,011,000). Kan was incorporated in Santa Cruz, California, U.S. and is principally engaged in manufacturing Chinese herbal products in the U.S. and sales to distributors and healthcare practitioners in the U.S. and Europe.

Acquisition of Kan allows the Group leverage on the expertise, resources, and sale network of Kan to develop its business in the U.S. market immediately. The acquisition can also create synergies with its existing products and expand the products portfolio of the Group's Chinese medicine products to increase the competitiveness of the Group in the market.

On 19 April 2017, the Group completed the acquisition of 100% equity interests of Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. (the "Plantation Subsidiaries"), which was settled by a combination of cash in the amount of RMB100,700,000 (equivalent to approximately HK$115,281,000) and allotments of 22,717,920 shares of the Company at fair value of HK$78,604,000.

The Plantation Subsidiaries are engaged in the plantation and trading of raw Chinese herbs and the manufacture and sale of TCM decoction pieces. The acquisition of Plantation Subsidiaries will allow the Group to vertically integrate the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of ensuring a stable supply of high-quality raw Chinese herbs at a lower cost. One of the current expansion plans and business strategies of the Group is to expand into the TCM decoction pieces business which is highly complementary to its existing CCMG business. The acquisition will allow the Group to immediately enter into the TCM decoction pieces industry and the expanded comprehensive product mix of the Group's CCMG, over-the counter Chinese healthcare products and TCM decoction pieces will highly improve the competitiveness of the Group in the market.

On 28 August 2017, the Group completed the acquisition of 100% equity interest of SODX Co., Ltd ("SODX") at a total cash consideration of JPY244.0 million (equivalent to approximately HK$17.1 million). SODX was incorporated in Japan and is principally engaged in the manufacture and sale of health food in Japan.

31. BUSINESS COMBINATIONS (continued)

The Group is more cost and time efficient to develop its health food business through the acquisition. SODX would act as a pilot factory to transfer the latest technology know-how from Japan to further improve product quality and production efficiency. The pilot factory will also act as the Group's new product development centre for further business expansion.

The fair values of the identifiable assets and liabilities of Kan, Plantation Subsidiaries and SODX as at the respective acquisition dates were as follows:

	Fair value recognised on acquisition date			
	Plantation Subsidiaries	Kan	SODX	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	94,189	3,493	16,495	114,177
Intangible assets	362	–	17	379
Prepaid land lease payments	14,510	–	–	14,510
Deferred tax assets	1,514	–	–	1,514
Prepayments, deposits and other receivables	22,890	1,330	260	24,480
Inventories	21,225	19,301	632	41,158
Biological assets	13,243	–	–	13,243
Trade and bills receivables	38,230	2,794	835	41,859
Cash and bank balances	2,643	5,031	4,956	12,630
Trade and bills payables	(18,424)	(1,056)	(68)	(19,548)
Tax payable	–	(26)	–	(26)
Other payables	(96,208)	(1,268)	(9,255)	(106,731)
Interest-bearing bank and other borrowings	(34,344)	–	(4,080)	(38,424)
Government grants	(637)	–		(637)
Deferred tax liabilities	–	(1,293)	–	(1,293)
Total identifiable net assets at fair value	59,193	28,306	9,792	97,291
Goodwill on acquisition	134,692	13,705	7,288	155,685
	193,885	42,011	17,080	252,976
Satisfied by:				
Cash	115,281	42,011	17,080	174,372
Equity instruments	78,604	–	–	78,604
	193,885	42,011	17,080	252,976

31. BUSINESS COMBINATIONS (continued)

The purchase price allocation of Kan, Plantation Subsidiaries and SODX are still preliminary, pending the finalisation of valuation of certain assets and the determination of the tax basis of the assets and liabilities acquired.

The fair value of the 22,717,920 ordinary shares issued as part of the consideration was based on the closing price of HK$3.46 per share on 19 April 2017.

The fair values of the trade and bills receivables and other receivables as at the date of acquisition amounted to HK$41,859,000 and HK$11,889,000, respectively. The gross contractual amounts of trade and bills receivables and other receivables were HK$41,859,000 and HK$11,889,000, respectively, none of which are expected to be uncollectible.

The Group incurred transaction costs of HK$4.4 million for above acquisitions. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

The fair values of the property, plant and equipment, intangible assets, prepaid land lease payments, inventories and biological assets were based on valuation reports issued by the independent valuer, Savills Valuation and Professional Service Ltd.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	Plantation Subsidiaries HK$'000	Kan HK$'000	SODX HK$'000	Total HK$'000
Cash consideration	(115,281)	(42,011)	(17,080)	(174,372)
Cash and bank balances acquired	2,643	5,031	4,956	12,630
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(112,638)	(36,980)	(12,124)	(161,742)

Since the acquisition, Plantation Subsidiaries, Kan and SODX contributed HK$26,368,000, HK$31,723,000 and HK$3,437,000 to the Group's revenue and contributed a gain of HK$4,131,000, HK$2,350,000 and HK$1,383,000 to the consolidated profit for the year ended 31 December 2017, respectively.

Had the combinations taken place at the beginning of the year, the proforma revenue and loss of the Group for the year ended 31 December 2017 would have been HK$613,527,000 and HK$6,051,000, respectively.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities:

	Bank loan and other borrowings HK$'000
At 1 January 2017	**261,048**
Changes from financing cash flows	**228,066**
Foreign exchange movement	**20,483**
Increase arising from acquisition of subsidiaries (note 31)	**38,424**
At 31 December 2017	**548,021**

	Bank loan and other borrowings HK$'000
At 1 January 2016	125,431
Changes from financing cash flows	141,987
Foreign exchange movement	(6,370)
At 31 December 2016	261,048

33. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	29,861	17,849
In the second to fifth years, inclusive	30,311	20,496
After five years	7,838	–
	68,010	38,345

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for:		
Acquisition of subsidiaries	–	217,512
Land and buildings	41,557	48,582
Plant and machinery	5,943	8,866
	47,500	274,960

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
HerbMiners Informatics Limited ("HerbMiners")	Company controlled by a director
Edtoma Corporate Services Limited	Company significantly influenced by Mr. Eddie Chan
CWCC Co., Limited	Company significantly influenced by Mr. Eddie Chan
Gateway (Macao Commercial Offshore) Company Limited	Company significantly influenced by Mr. Eddie Chan
Golden Sparkle Plantation Holding Limited ("Golden Sparkle Plantation")	Company controlled by Mr. Abraham Chan
Gold Sparkle (Guizhou) DZ Plantation Co,. Ltd ("Gold Sparkle DZ")*	Company controlled by Mr. Abraham Chan
Gold Sparkle (Guizhou) HZ Plantation Co,. Ltd ("Gold Sparkle HZ")*	Company controlled by Mr. Abraham Chan

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

35. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions during the reporting period are as follows:

	Notes	2017 HK$'000	2016 HK$'000
Software licence fee and IT service fee	(i)	–	781
Acquisition of intangible assets	(ii)	–	8,561
Purchase of raw materials	(iii)	462	9,338
Professional service fees	(iv)	612	622
Acquisition of subsidiaries	(v)	193,885	–
		194,959	19,302

Note:

(i) The software licence fee and IT service fee were paid to HerbMiners under 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. Since the Group acquired the software license from HerbMiners as mentioned below in (ii), no further software license fee and IT service fee were paid to HerbMiners subsequently.

(ii) The acquisition of intangible assets representing the transfer of the titles, interests and rights of the two types 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 the appraised value determined by an independent third party valuer.

(iii) The purchase of raw materials was made from Gold Sparkle DZ under prices mutually agreed by both parties. The Directors consider that the purchases of raw materials were made according to the prices and conditions similar to those offered to the other suppliers of the Group.

(iv) The professional service fees were paid to the related companies, in which Mr. Eddie Chan, the director of the Company, has significant influence, under prices mutually agreed by both parties. The Directors consider that the service charges were in line with those offered by the suppliers to its other customers.

(v) During the year 2017, the Group acquired Gold Sparkle DZ and Gold Sparkle HZ from Golden Sparkle Plantation at a consideration of HK$193,885,000, based on arm's length negotiation in reference to the appraised value determined by an independent third party valuer. Further details of the transactions are included in note 28 and 31 to the financial statement

The above related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

35.RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties:

In addition to the disclosure elsewhere in these financial statements, details of the Group's amount due to the related parties included in trade payables are as follows:

	2017		2016	
		Maximum amount outstanding		Maximum amount outstanding
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables:				
Gold Sparkle DZ	–	–	147	147

The above balance was unsecured, interest-free and settled on terms of two months.

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

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	7,846	11,656
Equity-settled share option expense	925	–
Pension scheme contributions	57	60
	8,828	11,716

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:

2017

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	22,110	22,110
Trade and bills receivables	242,603	–	242,603
Financial assets included in prepayments, deposits and other receivables	26,948	–	26,948
Pledged bank deposits	9,000	–	9,000
Cash and cash equivalents	86,805	–	86,805
	365,356	22,110	387,466

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	112,195
Financial liabilities included in other payables and accruals	52,726
Interest-bearing bank borrowings	548,021
	712,942

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)

2016

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	13,760	13,760
Trade and bills receivables	231,689	–	231,689
Financial assets included in prepayments, deposits and other receivables	21,564	–	21,564
Pledged bank deposits	11,000	–	11,000
Cash and cash equivalents	209,129	–	209,129
	473,382	13,760	487,142

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	74,191
Financial liabilities included in other payables and accruals	39,875
Interest-bearing bank borrowings	261,048
	375,114

37. TRANSFERS OF FINANCIAL ASSETS

At 31 December 2017, 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$6,189,454. At 31 December 2016, no Derecognised Bills have been endorsed to certain of its suppliers to settle the trade payables. The Derecognised Bills had a remaining maturity of approximately two 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, financial assets included in prepayments, deposits and other receivables 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 have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair value of the available-for-sale investments has been estimated based on the surrender value of the policy as disclosed in note 16 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 19 to the financial statements.

There were no transfers of fair value measurements during the year ended 31 December 2017.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, available-for-sale investments 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. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate of 100 basis points, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

Increase/(decrease) in the Group's profit before tax

	2017 HK$'000	2016 HK$'000
If decrease by 100 basis points	6,202	1,973
If increase by 100 basis points	(6,202)	(1,973)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2017 and 2016 to a reasonably possible change by 5% in the HK$ exchange rate against RMB and Japanese Yen ("JPY"), with all other variables held constant, of the Group's profit before tax due to changes in the fair values of monetary assets and liabilities.

	2017 HK$'000	2016 HK$'000
If RMB weakens against HK$ by 5%		
Decrease in profit before tax	2,420	(1,157)
If RMB strengthens against HK$ by 5%		
Increase in profit before tax	(2,420)	1,157
If JPY weakens against HK$ by 5%		
Decrease in profit before tax	(236)	(725)
If JPY strengthens against HK$ by 5%		
Increase in profit before tax	236	725

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.

As at 31 December 2017, the Group had certain concentrations of credit risk as 17% of the Group's trade and bills receivables were due from a company in which, Mr. He a director of the Plantation Subsidiaries held 25% of equity interests; and companies controlled by Mr. He. In order to minimise the credit risk, the financial department of the Group has been delegated by the management of the Group to be responsible for the determination of credit limits, credit approvals and other monitoring procedures and the review of the recoverable amount of each material individual debt at the end of each reporting period to ensure that adequate provision for impairment losses is made for irrecoverable amounts. In addition, the Group continuously monitors its trade and bills receivable balances so as to ensure that the Group will not be subject to material bad debt risk. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 20 to the financial statements.

The credit risk of the Group's other financial assets, which comprise available-for-sale investments, financial assets included in prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 20 to the financial statements.

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. 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:

	2017					
	On demand HK$'000	Less than 3 months HK$'000	3 to12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade and bills payables	–	109,894	2,301	–	–	112,195
Other payables	–	52,726	–	–	–	52,726
Interest-bearing bank and other borrowings	370,443	16,309	111,574	69,555	2,125	570,006
	370,443	178,929	113,875	69,555	2,125	734,927

	2016			
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Trade and bills payables	–	71,106	3,085	74,191
Other payables	–	39,875	–	39,875
Interest-bearing bank and other borrowings	261,048	–	–	261,048
	261,048	110,981	3,085	375,114

Note: As at 31 December 2017, interest-bearing bank borrowings in the amount of HK$370,443,000 (2016: HK$261,048,000) include 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".

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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 2017 and 2016 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
2017	**217,431**	**108,933**	**176,680**	**69,555**	**2,125**	**574,724**
2016	–	170,788	89,796	4,553	–	265,137

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 2017.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes interest-bearing bank borrowings, trade and bills payables, other payables and accruals less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	2017 HK$'000	2016 HK$'000
Interest-bearing bank borrowings	548,021	261,048
Trade and bills payables	112,195	74,191
Other payables and accruals	69,831	58,341
Less: Cash and cash equivalents	(86,805)	(209,129)
Net debt	643,242	184,451
Equity attributable to owners of the parent	549,082	454,505
Net debt and equity attributable to owners of the parent	1,192,324	638,956
Gearing ratio	54%	29%

40. EVENTS AFTER THE REPORTING PERIOD

On 14 March 2018, the Group entered into a shareholder loan agreement with Mr. Abraham Chan, an executive Director and controlling shareholder of the Company, in which Mr. Abraham Chan agreed to make shareholder loan facility up to HK$50 million to the Group for financing the general corporate funding requirements. On the same date, shareholder loan of HK$30 million was drawdown by the Group. The shareholder loan is unsecured, repayable on demand and bears interest at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to those offered by the banks to the Group. The Directors are of the view that the shareholder loan was conducted on normal commercial terms or better from the Company's perspective.

41. 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:

	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	–	–
Total non-current assets	–	–
CURRENT ASSETS		
Prepayments, deposits and other receivables	397,259	322,011
Cash and cash equivalents	278	10,352
Total current assets	397,537	332,363
CURRENT LIABILITIES		
Other payables and accruals	839	1,602
NET CURRENT ASSETS	396,698	330,761
TOTAL ASSETS LESS CURRENT LIABILITIES	396,698	330,761
EQUITY (note)		
Share capital	191,981	174,375
Shares held for share award scheme	(10,019)	(10,019)
Reserves	214,736	166,405
Total equity	396,698	330,761

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's equity is as follows:

Year ended 31 December	Share capital HK$'000	Share premium HK$'000	Shares held for share award scheme HK$'000	Share award reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2016	174,375	170,552	–	–	(28,691)	316,236
Profit for the year	–	–	–	–	44,480	44,480
Purchase of shares held for share award scheme (note 29)	–	–	(10,019)	–	–	(10,019)
Dividend distribution	–	(19,936)	–	–	–	(19,936)
At 31 December 2016 and at 1 January 2017	174,375	150,616	(10,019)	–	15,789	330,761
Loss for the year	–	–	–	–	(9,951)	(9,951)
Recognition of equity-settled share award	–	–	–	2,226	–	2,226
Issue of ordinary shares for equity consideration for acquisition of subsidiaries	17,606	60,998	–	–	–	78,604
Final 2016 dividend declared (note 11)	–	(4,942)	–	–	–	(4,942)
At 31 December 2017	191,981	206,672*	(10,019)	2,226*	5,838 *	396,698

* These reserve accounts comprised the reserves of HK$214,736,000 (2016: HK$166,405,000) in the statement of financial position of the Company.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 26 March 2018.

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				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
RESULTS					
REVENUE	591,566	535,986	473,900	366,352	342,303
Cost of sales	(195,708)	(187,182)	(168,168)	(134,241)	(123,086)
Gross profit	395,858	348,804	305,732	232,111	219,217
Other income and gains	31,162	10,796	8,212	5,794	7,956
Selling and distribution expenses	(191,753)	(154,380)	(140,214)	(99,176)	(101,940)
Administrative expenses	(206,987)	(154,001)	(119,376)	(81,028)	(79,711)
Other expenses	(1,082)	(3,221)	(3,977)	(2,307)	(2,683)
Finance costs	(16,867)	(9,331)	(10,243)	(13,064)	(13,149)
PROFIT BEFORE TAX	10,331	38,667	40,134	42,330	29,690
Tax	(8,442)	(6,505)	(11,676)	(7,823)	(3,399)
PROFIT FOR THE YEAR	1,889	32,162	28,458	34,507	26,291
Attributable to:					
Owners of the parent	1,889	32,162	28,458	34,463	26,264
Non-controlling interests	–	–	–	44	27
	1,889	32,162	28,458	34,507	26,291

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	1,293,977	860,248	697,332	420,310	348,111
TOTAL LIABILITIES	(744,895)	(405,743)	(227,622)	(284,497)	(274,999)
NON-CONTROLLING INTERESTS	–	–	–	(124)	(80)
	549,082	454,505	469,710	135,689	73,032

Note:

The historical financial information of the Group for the years ended 31 December 2014 and 2013 was extracted from the Prospectus.

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