PuraPharm®

PuraPharm Corporation Limited 培力控股有限公司

Stock code 股票代號：1498

2018 ANNUAL REPORT 年度報告

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PuraPharm Corporation Limited - 2018 Annual Report

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CORPORATE INFORMATION

PuraPharm Corporation Limited - 2018 Annual Report


農本方®
NONG'S

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Chow, Stanley
(appointed on 28 August 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

SCIENTIFIC ADVISORY COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED 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

AUDITOR

Ernst & Young
Certified Public Accountants

LEGAL ADVISOR

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

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

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

SHARE INFORMATION

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

COMPANY'S WEBSITE

www.purapharm.com

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

From left to right: Mr. Chan Kin Man, Eddie (陳健文), Mr. Chow, Stanley (周鏡華), 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 (THE "BOARD")

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 58, 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 62, 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 58, an Executive Director. 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 fellow member of the Association of Chartered Certified Accountants in January 2001 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.

Ms. Man Yee Wai, Viola (文綺慧), age 53, 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. 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.

Non-executive Director

Mr. Chow, Stanley (周鏡華), aged 55, was appointed as Non-executive Director on 28 August 2018. Mr. Chow has over 21 years of experience as a corporate lawyer in Hong Kong and Canada. From May 1995 to October 1996, Mr. Chow served as a senior manager in the Listing Division of The Stock Exchange of Hong Kong Limited. Mr. Chow joined Allen & Overy, an international law firm, as an associate in November 1996 and served as a partner in its Hong Kong office from May 2000 to January 2009. Then, Mr. Chow joined the Hong Kong office of Latham & Watkins, another international law firm, where he was a partner and the local department chair of the corporate department in Hong Kong from March 2009 to February 2014 and a member of its Initiatives Committee from March 2012 to February 2014. Mr. Chow is an independent non-executive director of HKBN Ltd. (stock code: 1310). Mr. Chow graduated from Queen's University, Canada with a Bachelor of Commerce (Honours) Degree in May 1986 and obtained a Juris Doctor with Honour Standing from the University of Toronto, Canada in June 1989. Mr. Chow was admitted as a barrister and solicitor in Ontario, Canada in 1991, and in British Columbia, Canada in 1994. He was also admitted as a solicitor in England and Wales in 1994 and in Hong Kong in 1995.

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

Independent Non-executive Directors

Dr. Chan Kin Keung, Eugene (陳建強), aged 55, 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, and a member of the Appeal Board on Public Meetings and Procession since 2013; a member of the Quality Education Fund Steering Committee since 2015; and a Council Member of City University of Hong Kong and a member of Witness Protection Review Board (Police) since 2019. 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 Fellowship of the Faculty of General Dental Practice of Royal College of Surgeons of England.

Mr. Ho Kwok Wah, George (何國華), aged 60, is an Independent Non-executive Director. Mr. Ho has over 20 years of extensive experience in accounting, auditing and financial management. He is a director of Yong Zheng CPA Limited, an accounting firm in Hong Kong, as well as the Director of Hong Kong Shatin Industries and Commerce Association Limited, and Hong Kong Commerce and Industry Associations Limited, respectively. Mr. Ho is also an independent non-executive director of Town Health International Holdings Limited (stock code: 3886), and Rykadan Capital Limited (stock code: 2288). He was awarded Medal of Honour (MH) by the government of Hong Kong SAR in 2015. Mr. Ho obtained a Bachelor's Degree in Accountancy from the Hong Kong Polytechnic University.

Dr. Leung Lim Kin, Simon (梁念堅), aged 64, is an Independent Non-executive Director. Dr. Leung has more than 30 years of extensive experience in both the information technology and telecommunications industries. Dr. Leung is currently a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business, University of Western Ontario, where he is primarily responsible for advising the school on its mission and strategy in Asia. He is also currently a member of the College Council of Tung Wah College, where he is primarily responsible for determining key governance issues. In 2005, he was appointed as the president of Motorola Asia- Pacific. Since 2008, Dr. Leung has been the Chief Executive Officer of Microsoft Greater China region. From 2009 to 2010, he was the Governor of the Upper Canada College. In 2012, Dr. Leung was appointed as Chief Executive Officer of Harrow International Management Services Limited. Since March 2015, Dr. Leung is appointed as the vice chairman and executive director of NetDragon Websoft Holdings Limited (stock code: 777) and the Chairman of 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 68, is an Independent Non-executive Director. Prof. Tsui is currently the President of the Academy of Sciences of Hong Kong and the President of Victor and William Fung Foundation. He is also an Independent Non-Executive Director of Hang Lung Group Limited (stock code: 0010). Prior to joining the Group, he was the Vice Chancellor of the University of Hong Kong. Prof. Tsui has over 40 years of research work experience, particularly in human genetics and genomics. Besides, he has over 300 peer-reviewed scientific publications and 65 invited book chapters. He was the recipient of many national and international prizes and was awarded 16 honorary doctoral degrees from universities around the world. He was appointed as the Justice of the Peace in 2006 and was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the Chief Executive of Hong Kong SAR in 2011 and 2016 respectively. He received a Doctor of Philosophy Degree from the University of Pittsburgh in the U.S..

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.

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.

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

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. He Ding Xiang (賀定翔), aged 53, 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 51, is the General Manager of Nong's® Sales and Marketing. She is responsible for the sales and marketing of Nong's® CCMG products in the Hong Kong market. Ms. Ho joined the Group in January 2005 as Manager, Ethical division. Prior to joining the Group, in 2002, Ms. Ho was an Assistant Customer Service Manager of Watsons Water, a manufacturer of pure distilled water, where she was primarily responsible for customer services for Watson's water. In 2003, Ms. Ho was an Assistant Business Information Manager and she was responsible for IT project co-ordination and sales administration. She received a Bachelor's Degree in Business from Monash University in Australia in 2002.

Mr. Lau Ka Kuen (劉家權), aged 37, is the Chief Financial Officer and Company Secretary of the Company. He is responsible for the Group's overall financial reporting and operation management, corporate finance and investment activities, investor relations and company secretarial matters. Mr. Lau joined the Group in 2013 as assistant financial controller. 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 Certified Public Accountant by the Hong Kong Institute of Certified 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.

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

Ms. Li Wai Shan (李慧珊), aged 39, is General Manager of the Group's clinic segment. She is responsible for the overall operation and development of the Group's Clinic segment. 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.

Mr. Chao Ka Wai (周家偉), aged 38, is the Head of Supply Chain. He is primarily responsible for the Group's supply chain management, and is the General Manager of PuraPharm (Nanning) Pharmaceuticals Co. Limited. Mr. Chao joined the Group in July 2013 as Internal Audit Manager. Prior to joining the Group, Mr. Chao was the Project Audit Senior Manager of Huawei, where he was primarily responsible for leading engineering inspection projects. Mr. Chao was accredited as a fellow member of the Association of Chartered Certified Accountants in July 2011, a Chartered Secretary by The Hong Kong Institute of Chartered Secretaries in August 2006, and a Certified Internal Auditor by The Institute of Internal Auditors in June 2008. He received a Bachelor's Degree in business administration from The Chinese University of Hong Kong in 2002.

Dr. Norimoto Hisayoshi (範本文哲), aged 49, 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 is being invited to act as the visiting researcher of Japan Ritsumeikan University (drug discovery from natural medicine), and the vice director of Association for Promoting Sustainable Use of Medicinal Resources in Japan and the local chapter coordinator (Japan Region) of Consortium for Globalisation of Chinese Medicine. 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 63, is the Vice President of Greater China. Mr. Shi joined our Group as the Chief representative of the Beijing representative office and Vice President of the Greater China region in October 2004. He is mainly responsible for liaising with government departments in the PRC with respect to our Group's operation, liaising with the China Food and Drug Administration at the provincial level, obtaining sales approval and monitoring the relevant policies and regulations in the PRC. Prior to joining our Group, Mr. Shi was appointed as the Chief representative of Ryoden (Holdings) Limited (菱電（集團）有限公司) in 1992, a company principally engaged in the elevator business, where he was primarily responsible for human resources and operational management of the Beijing representative office, as well as liaising with government departments and leaders in Beijing on behalf of the board of directors of Ryoden (Holdings) Limited (菱電（集團）有限公司). Mr. Shi was accredited as an electrical engineer in the PRC by The Ministry of Science and Technology of the PRC (中華人民共和國國家科學技術委員會) in November 1994. Mr. Shi received his Bachelor's Degree in journalism from Beijing Renwen University (北京人文大學) (formerly known as Beijing Renwen Hanshou University (北京人文函授大學)) in May 1987. He completed the Beijing Foreign Investment Enterprise senior management training course (北京市外商投資企業中方高級管理人員培訓班) and the Beijing Foreign Investment Enterprise personnel management training course (北京外商投資企業人事管理培訓) organised by the Beijing Personnel Bureau (北京市人事局) in December 1994 and November 1994, respectively.

Ms. Tang Yumei (唐玉梅), aged 43, 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.

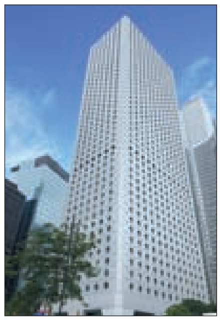
CORPORATE MILESTONES

PuraPharm Corporation Limited - 2018 Annual Report


金靈芝
PURAGOLD

CORPORATE MILESTONES

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



1998
- The Group was founded by Mr. Chan Yu Ling, Abraham.

2002
- In recognition of the Group's research and development expertise, the Group was selected by the State of Administration of Traditional Chinese Medicine to undertake the Concentrated Chinese Medicine Granules (the "CCMG") combination formulation research project to review and advise on the use of CCMG combo formulae products in China.

2004
- The Group was selected as one of the six pilot manufacturers and also the only non-PRC company that is licensed by the China Food and Drug Administration (the "CFDA") to manufacture and sell CCMG products in China.

- The Group became a CCMG product supplier of the majority of Hong Kong hospitals and healthcare institutions with Traditional Chinese Medicine (the "TCM").
- The Group began to sell its CCMG products to mobile clinics operated by non-profit organisation customers.

2009
- The Group's testing laboratory was certified by the China National Accreditation Service for Conformity Assessment (the "CNAS"), an international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards.

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

2010
- The Group obtained Good Manufacturing Practice (the "GMP") certifications from the Australia Therapeutic Goods Administration (the "TGA"), which is widely regarded as the most stringent certification standard in the world.

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

2014

- The Group's Radix Astragali 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.

2018

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

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

CHAIRMAN'S STATEMENT

PuraPharm Corporation Limited - 2018 Annual Report


NONG'S

CHAIRMAN'S STATEMENT

Dear Shareholders,

Our financial performance for the year ended 31 December 2018 was strong. During the year, the Group recorded revenue of HK$745.5 million, an increase of HK$153.9 million or 26% compared to last year. Net profit was HK$20.8 million, an increase of HK$18.9 million or 1,001.4% as compared to last year. EBITDA (Earnings before interest, tax, depreciation and amortisation) was HK$87.1 million, an increase of HK$32.4 million or 59.3% as compared to last year.

Despite achieving a strong growth, 2018 was a challenging year for the Group. In 2017, we revamped the sales strategy for our Concentrated Chinese Medicine Granules ("CCMG") business in China, and such move led to a temporary decline in revenue and profitability in 2017. In 2018, our revamped sales strategy was proved to be successful as we regained sales momentum for our China CCMG business, which resulted in a HK$103.1 million or 46.5% revenue growth from 2017.

PROSPECTS

The China market of the CCMG business continues to be challenging with keen price competition. Instead of competing on price, we will continue our strategy of producing safe, high quality Chinese medicinal products and services and to attain good profitability through innovative marketing. We will also be focusing on a few selected regions in China and strengthening the support to our distributors and hospitals.

In an effort to position ourselves as a leader in internationalising Chinese medicine, in 2017 we acquired two well-established overseas companies with their own factories, one in the City of Santa Cruz, California, USA and one in Osaka, Japan. The two acquisitions not only increased the production capacity of the Group, but also allowed us access to those lucrative markets through their extensive customer database and well-established distribution networks.

In order to strengthen our supply chain with a "farm to clinic" concept, we acquired a plantation with seed and seedling production facilities in Guizhou, China in 2017. This vertical integration of raw material supply has greatly strengthened our supply chain against the highly volatile Chinese herbal market in China. Our self-cultivated raw materials from the plantation provides assurance that our products are produced using high quality herbal materials.

These three newly acquired businesses all performed well and contributed stable revenue and profit to the Group. In 2018, we will continue to integrate and derive more synergies from these newly acquired businesses to foster new growth.

The clinic segment is another strategic business for the Group. The Group operates 62 Nong's® (農本方®) Chinese medicine clinics in Hong Kong as at 31 December 2018. Although annual revenue contribution from the clinic segment has increased from HK$5.8 million in 2014 to HK$95.9 million in 2018, representing a compound annual growth rate of 101.6% over the last four years, we continued to make refinements to our clinic network to improve our performance. In addition to being a market leader in CCMG products in Hong Kong, the Group has now become the largest Chinese medicine clinic chain in Hong Kong.

In 2017, the PRC government introduced new policies to encourage Chinese medicine practitioners to set up private clinics in China. The Group believes this policy is favourable to, and will complement, the Group's plan to grow its clinic business in China. The Group's first PRC clinic is located in Nanning, Guangxi Zhuang Autonomous Region. It is the first Hong Kong-funded medical institution to obtain approval to operate in Guangxi under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). The Group's second CEPA clinic is located in Shanghai and started trial operations in late 2018. For the next few years, the Group intends to focus on Shanghai and the recently promoted Greater Bay Area to grow its clinic business in China.

We believe that our ability to capitalise on our operational experience in clinic management, using our unique modernised model to provide Chinese medicine diagnosis and treatment services, will continue to drive our clinic business forward.

Research is an important part of the Group and we have continued to invest in research activities. We view new product development as an important factor to the development of our business. Ren Shu Chang Le Granules (仁术腸樂顆粒), our new drug for the treatment of irritable bowel syndrome (IBS), has commenced its Phase two clinical trial with the China Food and Drug Administration (the "CFDA") in the 3rd quarter of 2018. The Group expects the trial to be completed at the end of 2019 or early 2020.

APPRECIATION

2018 marked the 20th anniversary since our establishment in 1998. Our development in the past two decades has been extraordinary, and we are proud of our role in modernising Chinese medicine and providing excellent products and services to our customers. We are one of the most reputable Chinese medicine companies in Hong Kong and China, but we acknowledge that we can do better, and we will continue to aspire to be the most forward looking and innovative company in the Chinese medicine industry.

I wish to express my sincere appreciation to our shareholders, customers and business partners for their unwavering support and trust over the years. I would also like to extend my heartfelt gratitude to my fellow directors and our employees for their dedication.

By Order of the Board

Chan Yu Ling, Abraham
Chairman
Hong Kong, 27 March 2019

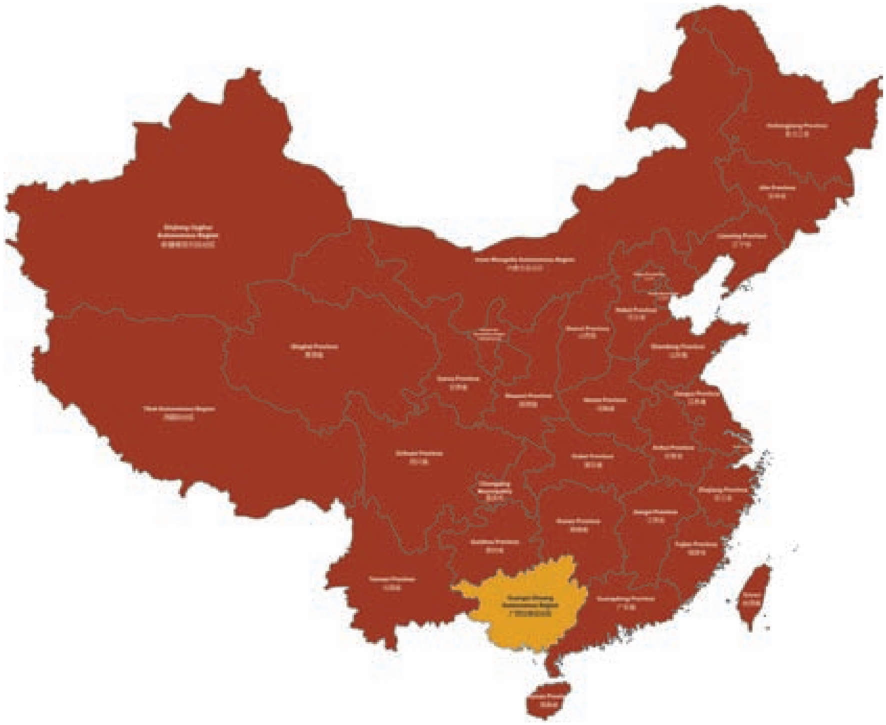
CORPORATE PROFILE

PuraPharm Corporation Limited - 2018 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 recognised by more than 70 countries around the world through its in-house CNAS ISO 17025 laboratory. The Group has been supplying CCMG to the majority of Hong Kong hospitals and healthcare institutions with TCM clinics since 2004. The Group is the leading and the largest supplier of CCMG products in Hong Kong with a market share of 70% and also the largest Chinese medicine clinic chain in Hong Kong.

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

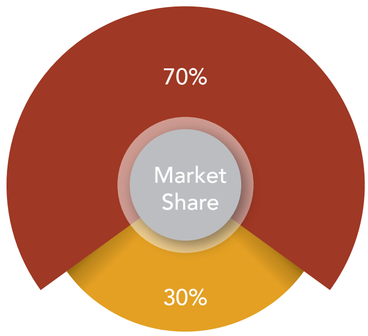


The Group has invested in TCM research and production facilities in Nanning, Guangxi, China. The factory complies with the PRC GMP standards as well as the TGA standards — the latter being one of the strictest certification standards in the world. The Group's laboratory is certified by the CNAS, the 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.

CORPORATE PROFILE

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

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

PRODUCTS AND SERVICES OVERVIEW

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枸杞
黄柏
白果
茯苓
川
杜仲
荆芥
薄荷
槟榔
连翘
槐叶

PRODUCTS AND SERVICES OVERVIEW

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

Our mission is simple:

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

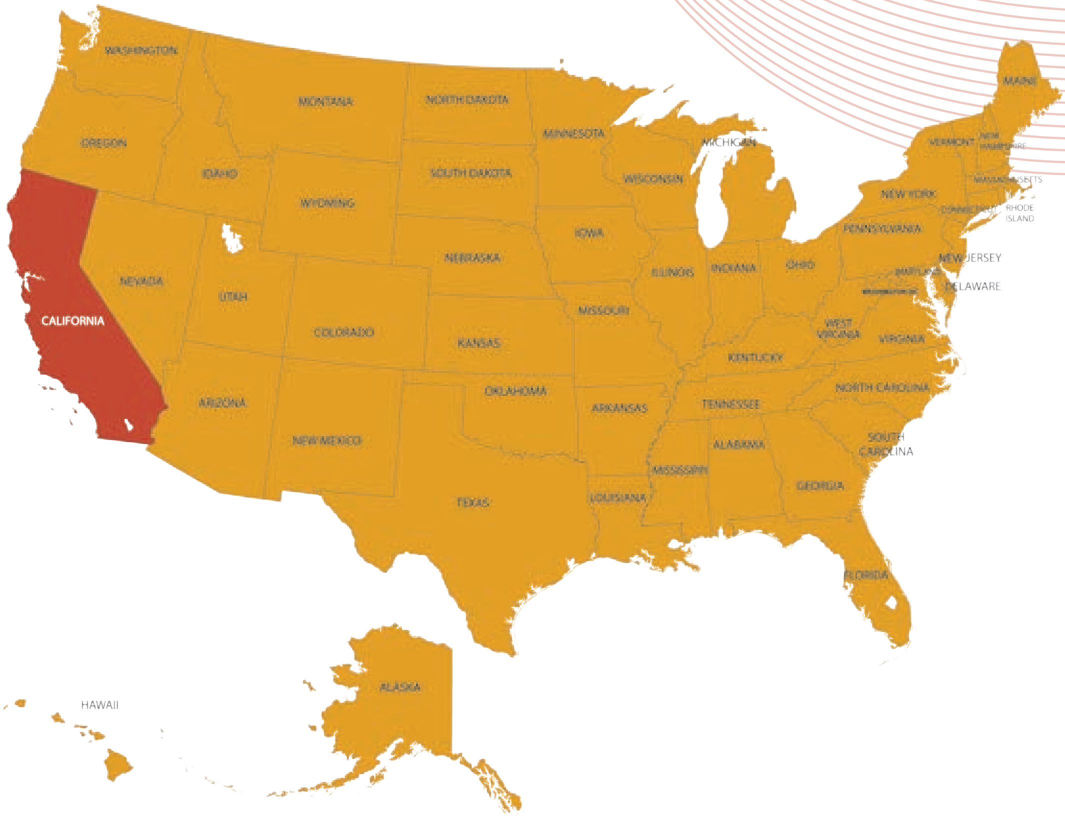
NONG'S CCMG PRODUCTS

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

PRODUCTS AND SERVICES OVERVIEW

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 recognised as one of the most stringent set of quality control standards for the assessment of the identity, strength, quality and purity of medicines. Our certifications under these international standards are testaments to the Group's advanced production capacity and outstanding product quality.



KAN HERB PRODUCTS

The Group's U.S. subsidiary, KAN, offers over 300 products and extensive herbal formula line.

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.

PRODUCTS AND SERVICES OVERVIEW

NONG'S CLINICS

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

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

The Group's characteristics:

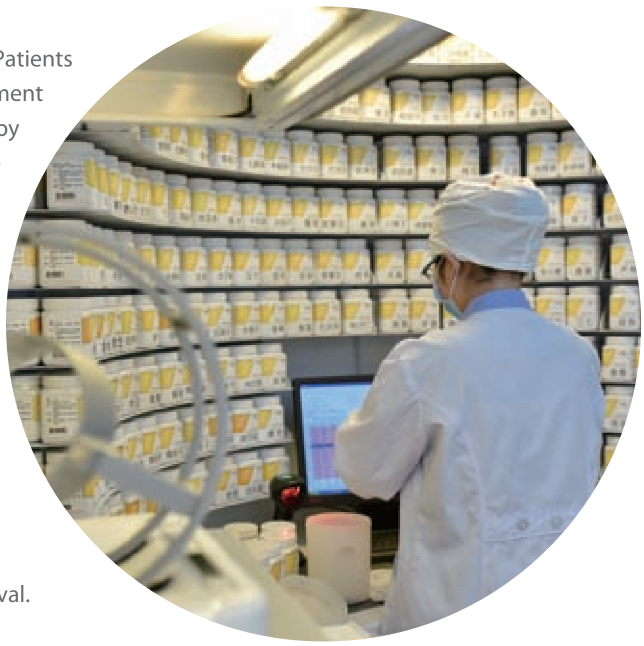
1. High-quality Chinese Medical Service

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

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

2. Tailor-made Health-keeping Service

- The Group'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, organisation of patients' medical records, medical diagnosis, prescription processing and inventory management to CCMG prescription dispensation.

- All medical records are computerised for easy retrieval.

MANAGEMENT DISCUSSION AND ANALYSIS

PuraPharm Corporation Limited - 2018 Annual Report


NONG'S
農本方

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	Year ended 31 December					
	2018 HK$'000	% of total	2017 HK$'000	% of total	Change HK$'000	%
Revenue						
— China CCMG	324,611	43.5%	221,526	37.4%	103,085	46.5
— Hong Kong CCMG	171,772	23.0%	180,987	30.6%	(9,215)	(5.1)
— Chinese healthcare products	99,024	13.3%	85,120	14.4%	13,904	16.3
— Nong's* (農本方*) Chinese medicine clinics	95,870	12.9%	77,565	13.1%	18,305	23.6
— Plantation	54,226	7.3%	26,368	4.5%	27,858	105.7
	745,503	100%	591,566	100.0%	153,937	26.0
Gross profit	454,900		395,858		59,042	14.9
Profit for the year	20,806		1,889		18,917	1,001.4
EBITDA	87,102		54,663		32,439	59.3
Key profitability ratio						
Gross profit ratio	61.0%		66.9%			
Profit margin ratio	2.8%		0.3%			

The Group's revenue for the year ended 31 December 2018 was HK$745.5 million, representing an increase of HK$153.9 million or 26.0% compared to HK$591.6 million in last year. The revenue growth was mainly attributable to (i) the growth of the Group's CCMG products in China market, (ii) continued growth of the Group's Nong's* (農本方*) Chinese medicine clinics in Hong Kong, and (iii) full consolidation of the results of 2017 newly acquired subsidiaries, in which the new subsidiaries in Guizhou, Japan and U.S. together contributed HK$102.2 million in total to the Group's overall revenue.

The Group's profit for the year ended 31 December 2018 increased by HK$18.9 million or 1,001.4% as compared to HK$1.9 million in last year. The substantial increase in profit was primarily attributable to (i) an increase in fair value gain on the Group's biological assets as compared to last year based on a valuation of the biological assets as of 31 December 2018, and (ii) an increase in the profit contribution from China CCMG segment as compared to last year, and (iii) profits contributed by the newly acquired subsidiaries in 2017. The increase in the profit was partially offset by HK$8.1 million one-off expenses for organisation restructuring project.

CHINA CCMG

For the year ended 31 December 2018, the sales of CCMG products in China was HK$324.6 million, representing an increase of HK$103.1 million or 46.5% compared to HK$221.5 million in last year. The increase was mainly attributed to the increase in sales quantity to both direct sales customers and distributorship sales, especially the distributorship sales experienced a rapid sales growth of more than double in sales quantity than last year. During the year ended 31 December 2018, direct sales customers maintained a revenue growth of about 15% and accounted for about 50% of the total revenue in China CCMG segment.

During the year ended 31 December 2018, the Group has revamped its sales strategy by focusing on business development in selected regions of China and strengthening the support to both distributors and direct sales hospitals. In order to accelerate the sales growth in China, the Group continued to devote more selling and distribution expenses to strengthen the promotion of the Group's products and brands in China, and provide more marketing resources to support both the direct sales customers and the distributors, to expand the Group's CCMG business in China market. As a result, more new customers were developed and sales to existing customers continued to grow.

HK CCMG

The Group continued to maintain its leading market position in Hong Kong and sell its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the year ended 31 December 2018, the direct sales of CCMG products in Hong Kong was HK$171.8 million, representing a decrease of HK$9.2 million or 5.1% compared to HK$181.0 million in last year. Such drop was mainly attributable to sales decline to the hospitals under the management of Hong Kong Hospital Authority ("HKHA"), as the supply contract with HKHA expired in March 2018. The sales decline to HKHA was partially offset by the increase in sales to private Chinese medicine practitioners.

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

During the year ended 31 December 2018, the sales of CCMG products and provision of Chinese medical diagnostic services from the Group's Nong's® (農本方®) Chinese medicine clinics generated revenue of HK$95.9 million in aggregate, representing an increase of HK$18.3 million or 23.6% compared to HK$77.6 million in last year, which was mainly attributable to:

(i) revenue growth from the clinics newly opened in 2017, which were not in full year operation in 2017.

(ii) continuous same clinic revenue growth for those clinics opened before 2017 resulted from the increase in number of patients visit.

During the year ended 31 December 2018, the Group reassessed the performance of the existing clinics network in Hong Kong and disposed of some under-performing clinics. The Group will further optimise the clinic network in Hong Kong and enhance its profitability by disposing those under-performing clinics and replacing them with new clinics in more promising location. The Group continues to be the largest TCM clinic chain in Hong Kong and operating 62 clinics as at 31 December 2018.

As at 31 December 2018, the Group operates one Nong's® (農本方®) Chinese medicine clinic in Nanning, Guangxi Zhuang Autonomous Region. It is the first Hong Kong-funded medical institution to have obtained approval to operate in Guangxi under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). The Group's second CEPA clinic was located in Shanghai and commenced the trial operation in late 2018.

CHINESE HEALTHCARE PRODUCTS

Sales by regions

	Year ended 31 December					
	2018		2017			
	Revenue HK$000	**% of total**	Revenue HK$000	% of total	Revenue growth HK$000	%
U.S.*	**38,155**	**38.5%**	31,723	37.3%	6,432	20.3%
Japan**	**9,794**	**9.9%**	3,436	4.0%	6,358	185.0%
Hong Kong	**51,075**	**51.6%**	49,961	58.7%	1,114	2.2%
	99,024	**100.0%**	85,120	100.0%	13,904	16.3%

* U.S. revenue in 2017 representing the revenue of Kan consolidated into the Group since 7 March 2017.

** Japan revenue in 2017 representing the revenue of SODX consolidated into the Group since 28 August 2017.

During the year ended 31 December 2018, the revenue from sales of Chinese healthcare products was HK$99.0 million, representing an increase of HK$13.9 million or 16.3% compared to HK$85.1 million in last year.

Such revenue growth was mainly attributable to full consolidation of K'an Herbs Inc. ("Kan"), a U.S. based Chinese herbal products company and SODX Co., Ltd. ("SODX"), a Japan based health food products company. Kan and SODX contributed HK$38.2 million and HK$9.8 million, respectively, to the Group's total revenue.

Apart from the revenue growth in the U.S. and Japanese markets, the Group's existing Chinese healthcare products recorded a steady revenue growth of HK$1.1 million or 2.2% for the year ended 31 December 2018 compared to HK$50.0 million last year. The revenue growth of the Group's existing Chinese healthcare products was mainly resulted from the continued marketing effort to increase the brand awareness of the Group's Chinese healthcare products.

PLANTATION

For the year ended 31 December 2018, the upstream plantation segment contributed HK$54.2 million to the Group's overall revenue, higher than the corresponding period in last year of HK$26.4 million by HK$27.9 million or 105.7%. As the TCM decoction pieces production facilities are still under construction, the revenue from the plantation segment was mainly attributed to the plantation and trading of raw Chinese herbs. The increase in revenue from the plantation segment was mainly attributable to (i) full consolidation of the result of the subsidiaries engaged in plantation business and (ii) increase market demand for the high quality seedlings and raw Chinese herbs of the Group.

Profitability

	Year ended 31 December		
	2018	2017	Growth Rate
	HK$000	HK$000	
Revenue	**745,503**	591,566	26.0%
Cost of sales	**290,603**	195,708	48.5%
Gross Profit	**454,900**	395,858	14.9%
Gross profit margin	**61.0%**	66.9%	

The Group's gross profit margin for the year ended 31 December 2018 was 61.0%, representing a decrease of 5.9 point compared to 66.9% in last year. The average selling price and unit cost remained stable during the year. The decrease in gross profit margin was due to the lower gross profit margin of trading of raw Chinese herbs, as higher proportion of revenue was generated from plantation segment.

Other income and gains

The Group's other income and gains were mainly comprised of government grants, gain from sale of equipment and accessories, fair value gain on biological assets and financial assets at fair value through profit or loss, net foreign exchange gain and interest income. For the year ended 31 December 2018, the Group's other income and gain was HK$49.6 million, representing an increase of HK$18.4 million or 59.2% compared to HK$31.2 million in last year. The increase was mainly due to (i) increase in government grant received during the year, in which HK$7.7 million was received in Guizhou to reward the Group's investments in poverty area, and (ii) increase in fair value gain on biological assets in Guizhou plantation business, attributable to the increase in plantation areas being planted.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses were 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 2018, the Group's selling and distribution expenses was HK$230 million representing an increase of HK$38.2 million or 19.9% compared to HK$191.8 million in last year. The increase was mainly attributable to (i) continued devotion of more marketing resources to support both the direct sales customers and distributors to expand the Group's CCMG business in China market; and (ii) increased advertising and promotional activities to strengthen the promotion of the Group's products and brands in China.

For the year ended 31 December 2018, selling and distribution expenses as a percentage to revenue was 30.9%, as compared to 32.4% in last year. Such decrease in percentage was attributable to the lower percentage of the plantation in Guizhou, and the healthcare product business in the U.S. and Japan, where their selling expenses to revenue ratio is relatively low.

Administrative expenses

	Year ended 31 December		Change	
	2018	2017		
	HK$000	HK$000	HK$'000	%
Clinics operating expenses	**80,836**	58,286	22,550	38.7%
General administrative expenses	**136,190**	148,701	(12,511)	(8.4%)
Total administrative expenses	**217,026**	206,987	10,039	4.9%

The Group's administrative expenses included both operating expenses for clinics and general administrative expenses. The expenses were 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 2018, the Group's administrative expenses was HK$217.0 million, representing an increase of HK$10.0 million or 4.9% compared to HK$207.0 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 in Hong Kong, (ii) increase in clinic operating expenses in China, including the pre-operation expenses for the clinic in Shanghai, (iii) administrative expenses attributed to the 2017 newly acquired subsidiaries in Guizhou, U.S. and Japan of HK$28.9 million in total, and (iv) HK$8.1 million one-off expenses for organisation restructuring project.

In order to increase the operating efficiency, the Group had engaged an organisation design professional to review the Group's organisation, and was recommended an optimised structure for the Group to sustain for a long-term growth with cost and operating efficiency. As a result, the Group had recorded a one-off expenses of HK$8.1 million as consulting fee and personnel restructuring expenses during the year ended 31 December 2018.

OTHER EXPENSES

The Group's other expenses were mainly comprised of net foreign exchange loss, loss on disposal of fixed assets and voluntary charity donation. The increase was primarily attributable to a net foreign exchange loss recorded during the year ended 31 December 2018, while a net foreign exchange gain was recorded in last year. The increase in loss on disposal of fixed assets resulted from the disposal of the under-performing clinics in Hong Kong during the year ended 31 December 2018.

FINANCE COSTS

For the year ended 31 December 2018, the Group's finance costs amounted to HK$21.9 million, representing an increase of HK$5.0 million or 29.7% as compared to HK$16.9 million in last year. The increase was mainly due to the increase in average outstanding bank and other borrowings during the year ended 31 December 2018 as compared to last year. During the year ended 31 December 2018 net bank borrowings decreased by HK$29.5 million and a loan outstanding from a director of HK$30 million was granted by Mr. Abraham Chan, to finance the general corporate funding of the Group.

INCOME TAX EXPENSE

For the year ended 31 December 2018, the Group's income tax expenses amounted to HK$5.7 million, representing a decrease of HK$2.7 million or 32.2% as compared to HK$8.4 million in last year. The effective tax rate decreased from 81.7% in last year to 21.6% for the year ended 31 December 2018. The decrease in income tax expenses and effective tax rate was due to:

(i) lower assessable tax profit for the profitable subsidiaries during the year;

(ii) according to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects relating to agriculture such as agro-product preliminary processing are exempted from income tax. As a result, the profit from the Group's subsidiaries in Guizhou which are engaged in the relevant businesses mentioned above were subject to preferential income tax rate of 0%; and

(iii) tax saving under the super deduction regime for certain of the Group's research and development expenses during the year.

Liquidity and Financial Resources

Cash position and interest-bearing bank and other borrowings

As at 31 December 2018, the Group had net current assets of HK$131.5 million (31 December 2017: HK$8.1 million), which included cash and cash equivalent of HK$104.9 million (31 December 2017: HK$86.8 million) and interest-bearing bank and other borrowings amounting to HK$518.5 million (31 December 2017: HK$548.0 million) and loan from a director amounting to HK$30 million (31 December 2017: Nil). As at 31 December 2018, the Group's unused bank facilities including overdraft amounted to HK$39.7 million (31 December 2017: HK$103.3 million).

Cash flow and liquidity ratio analysis

	Year ended 31 December	
	2018	2017
	HK$000	HK$000
Net cash from/(used in) operating activities	**72,461**	(42,752)
Net cash used in investing activities	**(36,088)**	(293,101)
Net cash (used in)/from financing activities	**(28,024)**	204,179
Current ratio	**1.2**	1.0
Gearing ratio	**1.0**	1.0

For the year ended 31 December 2018, the Group's net cash from operating activities was HK$72.5 million, which was primarily attributable to the increase in profit before tax (after adjustment items) of HK$27.3 million, and the improvement on the working capitals management, including optimising the procurement and production process, and expedite the trade receivable collection, for an increment of operating cash inflow.

For the year ended 31 December 2018, the Group's net cash used in investing activities was HK$36.1 million, which was attributable to (i) the capital expenditures incurred for production equipment for enhancement of existing production line in Nanning, Guangxi Zhuang Autonomous Region (ii) construction of TCM plantation centre held by the Plantation Subsidiaries in Danzhai, Guizhou province, (iii) establishment of new Nong's® (農本方®) Chinese medicine clinics in Hong Kong.

For the year ended 31 December 2018, the Group's net cash used in financing activities was HK$28.0 million, which was mainly resulted from the net decrease in bank and other borrowings of HK$34.7 million.

The Group's current ratio increased from 1.0 as at 31 December 2017 to 1.2 as at 31 December 2018, and gearing ratio (calculated by dividing total interest-bearing bank and other borrowings, and loan from a director by total equity) remained as 1.0 as at 31 December 2017 and 2018. The current ratio remained unchange due to a loan of HK$30 million from a director as at 31 December 2018, whereas there was no such loan as at 31 December 2017.

In order to improve the 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 and other borrowings:

	Year ended 31 December	
	2018	2017
	HK$000	HK$000
Property, plant and equipment	**169,617**	137,113
Prepaid land lease payments	**24,916**	25,696
Financial assets at fair value through profit or loss / Available-for-sale investments	**10,741**	10,562
Inventories	**40,317**	41,479
Trade and bills receivables	**92,693**	28,304
Pledged bank deposits	**9,000**	9,000
	347,284	252,154

Capital Commitment

	Year ended 31 December	
	2018	2017
	HK$000	HK$000
Land and buildings	**30,119**	41,557
Plant and machinery	**20,478**	5,943
	50,597	47,500

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2018.

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 2018, the Group had a total of 641 employees (31 December 2017: 681 employees). During the year ended 31 December 2018, total staff costs excluding Directors' remuneration was HK$108.9 million (31 December 2017: HK$120.0 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 - 2018 Annual Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

This ESG Report covered the period from 1 January 2018 to 31 December 2018 (the "Reporting Period"). All ESG-related activities during the Reporting Period were presented in this ESG Report.

The scope of the ESG Report consisted of the Group's offices, manufacturing plants, warehouses and clinics operating in Hong Kong and Beijing, Guizhou and Guangxi, the People's Republic of China (the "PRC"), unless otherwise specified.

The Group appointed Allied Sustainability and Environmental Consultants Group Limited (stock code: 8320) to prepare the ESG Report.

PURAPHARM'S VISION ON SUSTAINABILITY

In PuraPharm, we envision our business as to pursuit of a longer, healthier and happier life for humanity through delivering quality pharmaceutical products and services. Our sustainability vision is to sustain our business and reinforce people's well-being and longevity. This vision has steered our mission to operate in a responsible and sustainable manner whilst bringing positive influences to the world.

In pursuance of our mission, we continue to communicate our efforts through the publication of ESG reports. "Seeding Sustainability; Reinforcing Well-being" is the theme of this year's report. We describe the entire sustainable operation process as a communication tool for readers to walk through our journey. We emphasized the sustainability highlight throughout the entire process to show how we seed sustainability from the start of our business. Meanwhile, we also demonstrate our efforts in reinforcing social well-being within our employee and community.

ENGAGEMENT WITH STAKEHOLDERS

Stakeholder Engagement

The Group is dedicated to spreading the health and well-being awareness to the community through delivering quality products and services. As a bilateral approach to maintaining the quality of products and services, stakeholder communication is also important for our continuous improvements and growth. In order to interact with stakeholders, the Group has established various communication channels for the convenience of conducting ongoing dialogue. The Group has been engaging different stakeholders through the communication channels listed as follows:

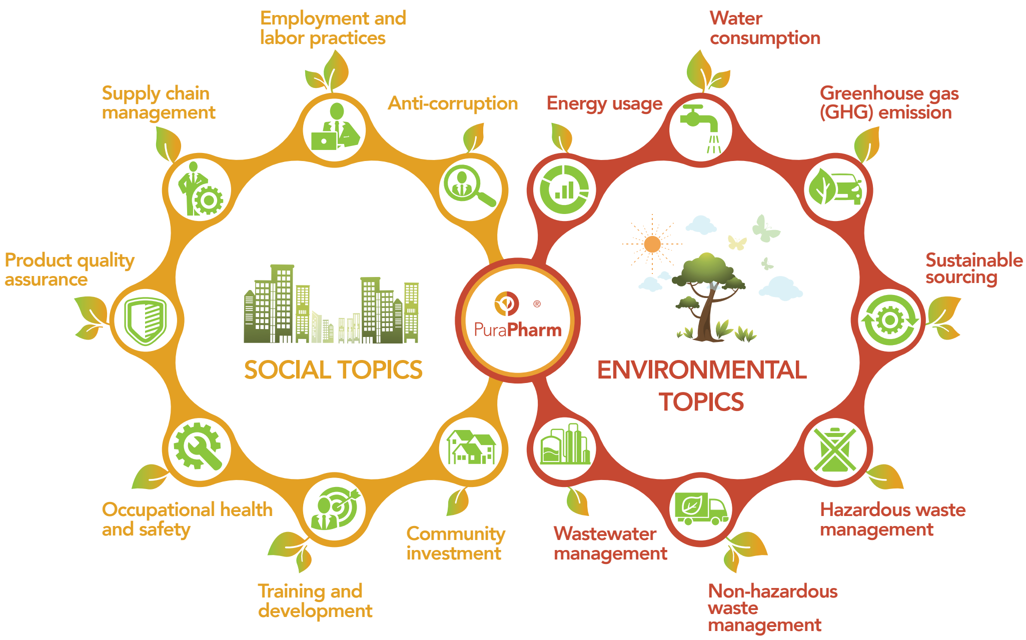
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The continuous communication has helped the Group to identify materials issues related to its operations, and review constantly on specific topic's management approach and evaluation method for improvements. Through communicating with various stakeholders, the Group better identified the material issues which were the critical environmental and social issues that need attention and improvements.

MATERIALITY ASSESSMENT

Apart from valuing the comments from different stakeholders, the Board had also collaborated with an independent consultant company to confirm the material environmental and social topics associated with its operations. In respect to that, the Group has formulated respective management approaches to improve the overall sustainability performance. The following environmental and social topics would be discussed more in-depth throughout the ESG Report:

MATERIALITY ASSESSMENT



Nong's® Clinic

Nong's® Chinese medicine clinic (the "Nong's® clinic") chain was one of the prevalent channels where stakeholders experienced the Group's products and services. Through providing best-in-class pharmaceutical products and services, the Group was eager to play an active role in supporting the health and wellness of patients, customers, employees and community.

As of year-end of 2018, the total number of Nong's® clinics operated by the Group in Hong Kong increased drastically from 7 clinics in 2014 to 62 clinics across Hong Kong Island, Kowloon and New Territories during four years of expansion. The Group also opened two Nong's® clinics in Guangxi and Shanghai, respectively, China. The expansion of Nong's® clinics has enabled more people to access clinics' services and Chinese medicine products. The outreach of the clinic business has put the Group in a leading position to support stakeholders' needs and facilitate accessibility of PuraPharm's healthcare services.

HIGHLIGHTED OF NONG'S CLINICS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SPROUTING A SUSTAINABLE OPERATION

The continuous investments in developing, producing and promoting its Concentrated Chinese Medicine Granules ("CCMG") products has paved the path of the Group's success of becoming a top-notch Chinese pharmaceutical manufacturer. Business success is no different from planting, which requires dedication and care from seeding to harvesting. The business has operated in a responsible and environmentally-friendly manner that promotes species continuation, supply chain stabilization, output consistency through green practices. These have led to the formation of comprehensive management approach for the sprouting of business succession.

SUSTAINABLE PLANTATION BUSINESS

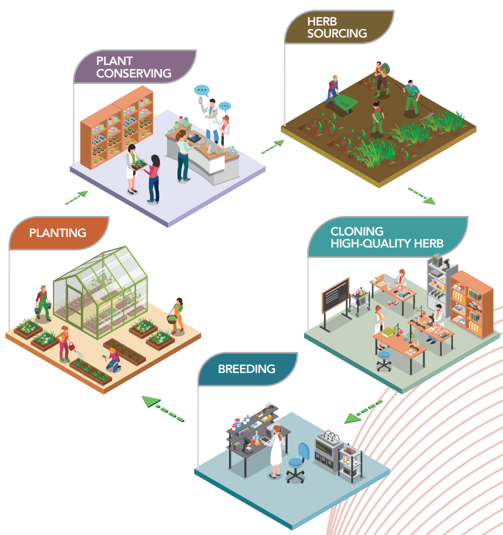
In order to ensure business is progressing favorably, the Group emphasized on owning a sufficient source of supply and a sustainable operation system. Raw herbs are the main source in the Group's business operation and limited resource in the natural environment, the Group is committed to protecting herb species to ensure that operations are not affected.

SUSTAINABLE SOURCING

As to sustain business operations, raw herbs sourcing served as an essential fundamental step to commence the production cycle. Thus, the Group avoided harvesting endangered herbs and over-harvesting in order to protect the herbs from extinction.

In pursuance of herb species conservation, the Group has collaborated with leading research institutions and well-known universities to establish a National Research Center of Medicinal Plants and Seeds Breeding in Guizhou province for the reproduction of endangered species. With the application of advanced biotechnology techniques on species sourcing, cloning and breeding, the research center has successfully conserved over 30 endangered herbs. This has improved the yield of species and enhanced productivity, whilst promoting biodiversity and favor environmental balance.

PROCESS OF SUSTAINABLE CLONING



Sustainable Operation Measures

In addition to stabilising source of raw herbs, the Group also strived to operate in a responsible manner to preserve land and workforce for plantation business. In this end, the Group took the following sustainable operation measures for the continuous protection of the natural environment and brought value to the community:

— Maintained the quality and fertility of soil by enriching soils with right amount of organic and inorganic fertilizers in order to sustain high yields;

— Collected herbal residues and converted as fertilizers to compost the plants;

— Installed irrigation sprinkler to prevent water leakage when transporting water;

— Introduced mechanical packaging machines to reduces the risk of occupational injuries and enhance productivity; and

— Created job opportunities in the local areas and provided professional trainings to support the communities and alleviate poverty.

These sustainable operational measures were conducive to ensuring the sustainability of the planting business.

MANAGING SUPPLY CHAIN

Ensuring the sustainability and stability of resources provision is essential to the continuation of business. In view of this, the Group has adopted a stringent management approach on managing the supply chain performance to guarantee their consistency assists output sustainability.

SUPPLIER MANAGEMENT

The Group's dedication to responsible and stable sourcing relied on a reliable supply chain. Through cross-team cooperation of comprehensive supply chain management, the procurement team evaluated suppliers' reliability based on their quality, reputation, delivery punctuality, experience, scale of operation and plantation site, while the inspection team conducted annual visits to suppliers to assess site conditions, quality management, and logistics services in order to reduce environmental and social risks.

In promotion of business ethics, the Group communicated with all suppliers to ensure they conducted business with fairness and integrity. To this end, the Group articulated expectations of suppliers' business conduct stated in the Code of Conduct. All suppliers were required to comply with the requirements set forth in the document.

In case of any suppliers' non-compliances, the Group would communicate the necessary follow-up actions and require suppliers to report back to the Group's quality assurance department within 30 days. The inspection team would assess and review suppliers' improvements on the next audit session. If the supplier does not meet the requirement, the Group would consider to terminate its contract.

During the Reporting Period, the Group had a total number of 102 suppliers across China, Hong Kong, Japan and Taiwan to maintain its business operations.

Number of suppliers in 2018:

Country/Region	No. of suppliers
The PRC	70
Hong Kong	27
Japan	3
Taiwan	2

ASSURING QUALITY

In addition to suppliers' quality, the Group is dedicated to implement stringent quality assurance standards to guarantee the quality, reliability and security of the its products and services.

Quality Control

The quality assurance procedures strictly complied with all relevant internal quality standards, for instance, the Good Manufacturing Practice ("GMP") standards of the China Food and Drug Administration ("CFDA") and Chinese Medicine Formula Granule Quality Standard of the Guangxi Food and Drug Administration. Under these standards, the Group stipulated the following measures in the production process:

Measure	Description
Quality control system	Incorporated good manufacturing practice, quality control measure and relevant risk management
In-house raw materials testing	Established an ISO/IEC 17025:2005 certified in-house lab and conducted safety tests such as heavy metals and pesticide residues detection, and microbial counts before product distribution
Advanced testing and research equipment	Applied the advanced technology and expertise in product research and testing
Third party safety test	Appointed an independent third-party laboratory to perform additional safety tests on selective products
Regulation compliance	Standardized the quality assurance process in accordance with GMP standards for handling materials and products
Regular feedback review	Collected customer opinions and demands and involved relevant departments for improvements

Product Reliability

To guarantee the reliability of products, the Group paid attention to the accuracy of product labelling to eliminate any false or misleading messages. All products clearly labelled on the package as per regulatory requirements to ensure customers understand caution warnings and medication instructions.

Customer Privacy Security

As a reliable company, the Group recognized the importance of protecting customers' privacy. Therefore, the Group constantly reminded employees to handle all customer data carefully in accordance with local laws and regulations. Employees shall only collect necessary personal data and ensure the information obtained was protected from unauthorized or accidental access.

Complaint and Product Recall

In case of complaint, the Group viewed it as the opportunities to review the quality control system for continuous improvement and raise employees' awareness to prevent the recurrence of such issues. In this regard, the Group has formulated the Standard Operation Procedure of Product Recall to resolve customers' complaint:

COMPLAINT AND PRODUCT RECALL

Guided by the Standard Operation Procedures, all complaints and product recalls were properly settled and reviewed.

DEVELOPING GREEN PROCEDURES

Apart from stringently monitoring quality throughout the production process, the Group is also dedicated to operate in an environmentally responsible manner. As implementing green elements into operation has become a key aspect to its enterprise growth and development, the Group has committed to reducing environmental impacts by establishing policies and mitigation measures.

Environmental Policy

Formulated in accordance with all local relevant environmental laws and regulations, the Group's environmental policy encompassed the following principles:

Comply with all relevant environmental laws and regulations

Minimise greenhouse gas emissions and air emission

Utilise 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

Minimise overall impact on the environment and natural resources

During the Reporting Period, the Group was not involved in any significant regulatory non-compliance.

Energy Consumption and Greenhouse Gas (GHG) Emissions Monitoring

The main usage of energy was electricity to power the facilities, equipment and lighting fixtures in the Group's premises including the offices, factories and warehouses. Other various forms of energy usage such as natural gas and raw coal were used to provide heating for boilers to generate steam for production purpose.

As a result of energy consumption, the Group recorded the subsequent GHG emissions. The Group monitored the direct emissions from coal burning and the indirect emissions from electricity and natural gas consumptions as supplied by utility companies.

Energy consumption[1]

	Unit	2018
Total Electricity consumption	kWh	7,825,520
Offices	kWh	2,680
Manufacturing plants and warehouses	kWh	7,490,773
Clinics	kWh	332,139
Total Natural Gas consumption	m^3	1,364,000
Total Coal consumption	tonnes	293.2
Total Energy Intensity	GJ/ million revenue	119
Offices	GJ/ million revenue	0.01
Manufacturing plants and warehouses	GJ/ million revenue	118
Clinics	GJ/ million revenue	1.6

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

GHG Emissions

	Unit	2018
Direct GHG emissions (Scope 1)	tonnes of CO_2 equivalent (tCO_2e)	3,630
Indirect GHG emissions (Scope 2)	tCO_2e	4,606
Total GHG	tCO_2e	8,237
Total GHG emissions intensity	tCO_2e/million revenue	11.1

Water Resource Management

The Group's major water consumption was sourced from municipal water suppliers and was mainly used for production manufacturing, cooling and cleansing purposes at factories and domestic water consumption at offices. In addition, a small amount of water for irrigation was pumped from rivers near the plantation sites.

Water consumption[2]

	Unit	2018
Total water consumed	m^3	143,565
Total water intensity	m^3/million revenue	193

Note 2: Water consumption considered China operations only because the consumption of water in Hong Kong operations was insignificant.

Waste Management

The non-hazardous waste production mainly came from herbal residues, general refuse and used packaging materials. To reduce the disposal of herbal residues, the manufacturing factory in Nanning appointed a third-party fertilizer company to collect and recycle waste herbal residues into produce organic fertilizers. The organic fertilizers were distributed to local farmers to enrich the local plantation business. During the Reporting Period, 2060 tonnes of herbal residues were collected and recycled to make fertilizers.

The hazardous waste generated from the Group's operations included acupuncture needles used in clinics. Under the guidance of relevant local clinical waste regulation, the acupuncture wastes were properly segregated, stored and handled prior to collection by licensed waste disposal service companies.

Waste management

	Unit	2018
Non-hazardous		
Herbal residues	tonnes	2,060
Recycled Paper	tonnes	24
Recycled Plastic	tonnes	9.6
General refuse	tonnes	259.8
Hazardous		
Acupuncture waste	kg	4

Overview of Environmental Mitigation Measures

The Group implemented mitigation measures in different areas to ensure that environmental sustainability was rooted in the approach of business operations and product development. To minimize the related environmental footprints in its operation, the Group has implemented the following environmental mitigation measures:

ENVIRONMENTAL MITIGATION MEASURES

Energy

- Installed Modified Mechanical Vapor Recompression ("MVR") system to increase the utilization rate of MVR during operation which largely reduced the electricity, water, and steam consumption. The Group has expected to save 500,000 kWh of energy consumption throughout the reporting period;
- Implemented a "10-days work, 3-days rest" policy to shut down all the equipment during 3 resting days. It reduced the electricity bill by RMB180,000 per month, equivalent to about 240,000 kWh of electricity;
- Installed 20 electric meters to monitor the electricity consumption in factories as a way to identify any abnormality;
- Installed steam ejection pumps for waste heat collection and re-use; and
- Gradually replaced fluorescent tubes with LED lighting system since 2015

Water

- Replaced Freon cooling systems with water curtain cooling system;
- Applied water-cooling system for equipment to ensure water was used and recycled at 100%; and
- Installed irrigation sprinkler to control and save water

Wastewater

- Ensured wastewater has met the Integrated Wastewater Discharge standards set by the PRC government before it discharged into the municipal sewer network

Waste

- Converted herbal residues into reusable organic fertilizers;
- Sorted and recycled the packaging materials in the production process; and
- Raised the environmental awareness of employees on 3R (reduce, reuse, recycle) concept

Packaging materials

- Removed all outer carton boxes in shipping which saved a total of 35,417 outer carton boxes

CULTIVATING A TALENTED TEAM

Maintaining a sustainable operation required collective efforts. With this in mind, the Group valued employees who contributed to its business success. The Group supported their rights, cared for their welfares, flourished their development and sprouted a safe and healthy workplace in order to safeguard and cultivate them.

Attracting and Retaining Talents

The Group has instituted a series of employment policies to acquire and retain talents. The recruitment process adopted an equal-opportunity and non-discriminatory approach whist selecting the best-suited candidate. The Group Human Resource Department also screens candidates' valid identification and working permit to eliminate child or forced labor during recruitment.

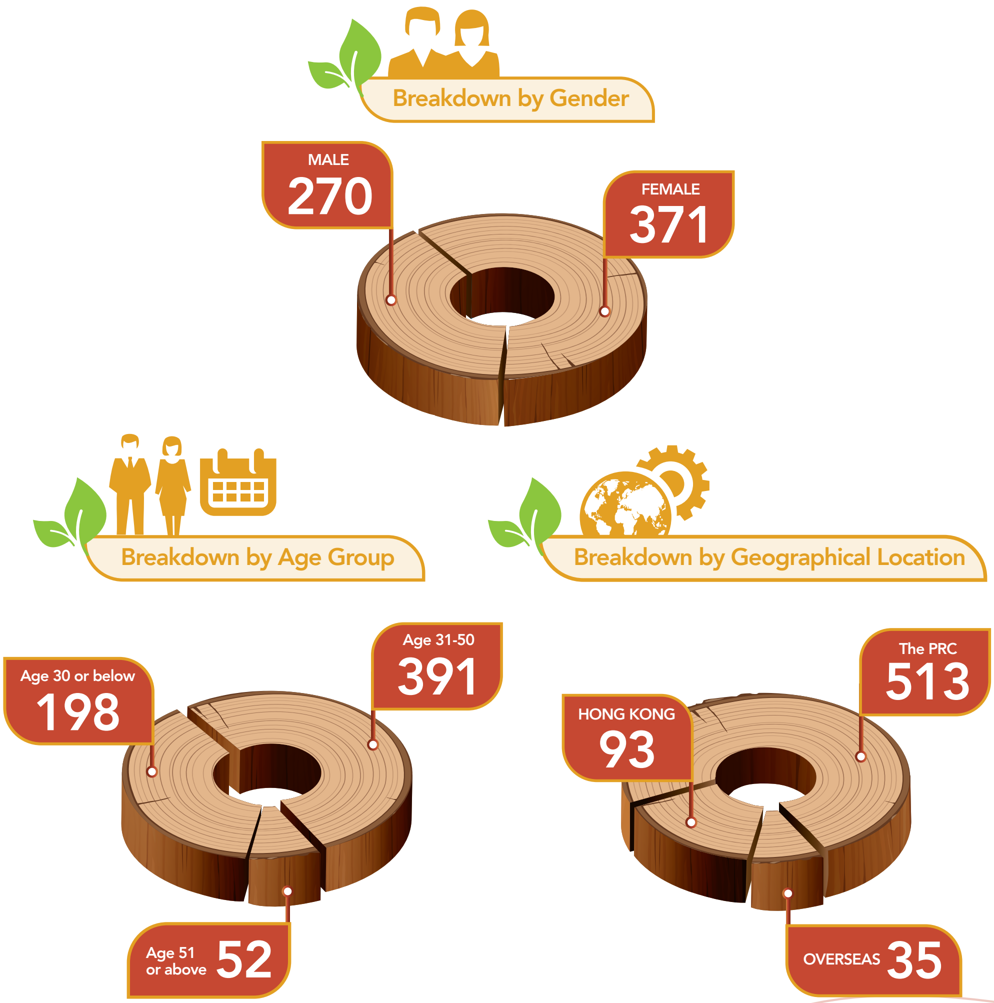
In support of employees' rights and welfares, the Group stipulated a comprehensive remuneration package for employees. In accordance with the respective local laws, the Group ensured reasonable wage, working hours, paid leaves, medical benefits and other welfares. On top of mere compliance, the Group also supported work-life balance by encouraging employees to leave work on time. In case of any overtime work, the Group shall reimburse the employee with compensation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group complied with all relevant local laws and regulations relating to employment practices and labor standards. There was no material non-compliance or reported case of any relevant violation.

As at the end of the Reporting Period, the Group had a total of 606 employees across Hong Kong and the PRC. The breakdown of employees by different categories are listed as below:

EMPLOYMENT BREAKDOWN



Team Building Activities

To appreciate employees' hard work and reinforce cross-team cooperation, the Group arranged a variety of staff activities for relaxation and team-bonding purposes. These included annual dinner and regular birthday parties. Through these activities, employees from different departments interacted and created a "feel-like-home" atmosphere. This shall favor work-life balance and enhance productivity.

Annual dinner

Birthday celebration

Developing Talents

As employees became the vital roles to sustain a smooth operation, the Group valued their development in support of business growth. In this regard, the Group implemented a comprehensive training policy and offered a wide range of training opportunities to equip them with all-rounded skills.

Under the policy, the Group conducted yearly performance assessment on employees as a measure to analyze the effectiveness of trainings and identify the improvement areas. Afterwards, the Training Department would provide tailored trainings for employees based on the identified needs and their job positions. In addition, the Group encouraged employees to participate in trainings by providing subsidies.

Throughout the Reporting Period, the Group offered more than 450 training programmes for employees in different business units which provided a total of 708 training hours to unleash their potential in the workplace. Different training programmes were highlighted as follows:

Business unit	Training programmes highlight
Management	Marketing Strategies Workshop Leadership Training
Quality Assurance	Quality Management Training Good Manufacturing Practice Training
Procurement	Financial Knowledge and Contact Management Training for Procurement Practices
Production	Production Safety Management Course Good Manufacturing Practice Training

Anti-corruption Policy

Beyond building a talented team, the Group held high regards on employees' integrity standards to uphold an ethical corporate image. Thus, the Group focused on raising employees' awareness of anti-corruption practices. With this in mind, the Group enforced and educated employees with guidelines under the Anti-corruption Management System and the Code of Conduct in pursuance of an ethical operation.

For instance, the Group required all employees to avoid soliciting or accepting any advantages from third parties. Besides, the Group instructed all employees to disclose any suspected misconduct through the established whistle-blowing channels. Should such incident arise, the Group shall investigate the case thoroughly and take necessary disciplinary actions.

The Group also invited the ICAC to present a training seminar in the Hong Kong office. The seminar shared information regarding the importance of upholding a sound corporate governance framework and instructed the Group to prevent or notify any corruption incidents.

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

Safeguarding Talents

A safe and healthy work environment has always been the cornerstone of the Group's operation. In this connection, the Group has instituted safety policies to promote occupational safety and reduce the risk of hazards. The Group has adopted the following preventive measures in order to safeguard employees' health and safety in the workplace:

HEALTH AND SAFETY PREVENTIVE MEASURE

During the Reporting Period, the Group complied with all applicable local laws and regulations relating to workplace hazard prevention and occupational health and safety. As a result of these stringent safety practices, the Group has achieved and maintained a zero work-related fatality during the Reporting Period.

ENRICHING A HEALTHY COMMUNITY

In addition to cultivating its employees, the Group extended its care in the society as a mean to bring wellness. Along the journey of seeding sustainability, the Group has continued its ongoing mission of reinforcing well-being and longevity.

Contributing to the Community

Through community engagement, the Group devoted resources to support health and wellness across local and overseas communities, hospital groups, healthcare organizations and educational institutions. For instance, the Group held a Chinese Medicine Eye Care Workshop for general public to raise their awareness on maintaining good eyesight. The Group also organized a Chinese medicine service trip to the Philippine to give local people healthcare support. The Group also provided sponsorships to support the charitable events and the development of various groups, such as the Lok Sin Tong, the Hong Kong Association of Traditional Chinese Medicine, Kiang Wu Hospital, and Chinese Medicine For All.

Chinese Medicine Eye Care Workshop

Philippines Chinese Medicine Service Trip

In lights of allowing the local community to gain a better understanding of Chinese medicine, the Group participated in a large-scale campaign entitled Promotion of Traditional Chinese Medicine in China — Hong Kong Programme to promote Chinese medicine health culture and enhance public health literacy.

The Group received certification from Hong Kong Government appreciating its effort of promoting Chinese Medicine.

Besides, the Group supported local students to thrive their education and career development in the Chinese medical field. In this instance, the Group organized various seminars and study tours for local students. The Group also established a number of scholarships for medical students in the Chinese University of Hong Kong, University of Hong Kong and Hong Kong Baptist University as a way to nurture their personal and professional growth while giving back to the community.

The Group supported student's education and career development in the Chinese medical field

Overall, the Group made a generous donation via its sponsorships and scholarships throughout the Reporting Period.

HARVESTING ACHIEVEMENT

In recognition of its continuous efforts put in industrial advancement in this Reporting Period, the Group has achieved a number of patents as the fruitful milestones by well-recognized issuers around the world. On top of that, one of the Group's patents has received the Gold Medals with Congratulations of Jury during the 46th International Exhibition of Inventions of Geneva to mark its success and recognition.

The Group's patents during the Reporting Period were as follows:

Name	Issuer	Issue Date
Coriolus Versicolor Extracts, Methods of Isolating Biologically-Active Compounds, and Uses Thereof	Australian Government IP Australia	3 January 2018
	The United States Patent and Trademark Office	9 January 2018
	Taiwan Intellectual Property Office	11 August 2018
	European Patent Office — United Kingdom & Germany	21 November 2018
Novel Therapeutic Methods for Treating Inflammation and Immune System Disorders	European Patent Office — United Kingdom	11 April 2018
Compounds and Uses Thereof for Treating Inflammation and Modulating Immune Responses	Canada Intellectual Property Office	1 May 2018
Materials and Methods for Prevention and Treatment of Viral Infections	Hong Kong Intellectual Property Department	8 June 2018
	Canada Intellectual Property Office	25 September 2018
Ontological Information Retrieval System	The United States Patent and Trademark Office	2 October 2018

Looking Forward

In achieving of its sustainability vision, PuraPharm has been dedicated to bringing wellness into its operations and the community. To sustain competitiveness, the Group has committed to continuously enhance its product quality and provide convenient services. Being the largest Chinese medicine clinic chain in Hong Kong, the Group sees the potential to extent its portfolio in the PRC market. Hence, the Group will consider growing its clinic network to further promote well-being. With an encouraging yet challenging future, the Group looks forward to perpetuating its vision and continuing its sustainability journey to bring longer, healthier and happier lives for humanity.

Compliance Table

The Group strictly complied with the laws and regulations in different aspects listed as follows:

Aspect	Laws and Regulations
A1: Emission	Environmental Protection Law of the PRC Law of the PRC on the Prevention and Control of Water Pollution Law of the PRC on Prevention and Control of Atmospheric Pollution Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes Law of the PRC on Energy Conservation Integrated Wastewater Discharge standards
B1: Employment	Employment Ordinance of Hong Kong
B4: Labour Standards	Labor Law of the PRC Contract Law of the PRC
B2: Health and Safety	Occupational Safety and Health Ordinance of Hong Kong Production Safety Law of the PRC Fire Protection Law of the PRC Regulations on Safety Supervision over Special Equipment
B5: Supply Chain Management	Pharmaceutical Administration Law of the PRC Policy for the Control of Drug Manufacturing Quality Good Manufacturing Practice (GMP) standards
B6: Product Responsibility	Law of the PRC on the Administration of Pharmaceuticals Good Manufacturing Practice (GMP) standards Personal Data (Privacy) Ordinance of Hong Kong
B7: Anti-corruption	Criminal Law of the PRC Law Against Improper Competition Prevention of Bribery Ordinance of Hong Kong

CORPORATE GOVERNANCE

PuraPharm Corporation Limited - 2018 Annual Report

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2018.

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 2018 (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 provision 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 consolidated financial statements of the Group and the Company for the year ended 31 December 2018.

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 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 2018 is set out below:

Remuneration band (HK$)	Number of Individual
Nil–1,000,000	4
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 2018 are set out in note 8 to the consolidated financial statements in this annual report.

3. Board Composition

As at 31 December 2018, the Board consisted of nine Directors, including four Executive Directors, one Non-executive Director and four Independent Non-executive Directors. Biographies of the Directors are set out on pages 8 to 11 of this annual report.

During the year 31 December 2018, the Board comprised 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 Ms. Man Yee Wai, Viola Mr. Chan Lung Sang (retired on 25 May 2018)
Non-executive Director	Mr. Chow, Stanley (appointed on 28 August 2018)
Independent Non-executive Directors	Dr. Chan Kin Keung, Eugene Mr. Ho Kwok Wah, George Dr. Leung Lim Kin, Simon Prof. Tsui Lap Chee

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.

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

4. Appointment and Re-election of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association (the "Articles").

Each of the Executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the Independent Non-executive Directors and Non-executive Director has signed an appointment letter with the Company for a term of three years unless terminated by a written notice not less than 30 days' prior to the termination 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 2018, 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 2018, 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 2018 are set out below:

Name of Director	Board meeting	Annual general meeting
Mr. Chan Yu Ling, Abraham	5/5	1/1
Dr. Tsoi Kam Biu, Alvin	5/5	1/1
Mr. Chan Lung Sang (retired on 25 May 2018)	2/5	0/1
Ms. Man Yee Wai, Viola	5/5	1/1
Mr. Chan Kin Man, Eddie	4/5	1/1
Mr. Chow, Stanley (appointed on 28 August 2018) (Note)	2/5	0/1
Dr. Chan Kin Keung, Eugene	5/5	1/1
Dr. Leung Lim Kin, Simon	3/5	0/1
Mr. Ho Kwok Wah, George	5/5	1/1
Prof. Tsui Lap Chee	5/5	1/1

Note: Two Board meetings were held since the appointment of Mr. Chow, Stanley on 28 August 2018.

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. 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)*	4/4
Dr. Tsoi Kam Biu, Alvin	4/4
Prof. Tsui Lap Chee	4/4

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
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 2018 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 Review Period are set out below:

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

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 Review Period are set out below:

Committee members	Meeting attended/ Total
Mr. Chan Yu Ling, Abraham *(Chairman)*	3/3
Dr. Chan Kin Keung, Eugene	3/3
Dr. Leung Lim Kin, Simon	2/3

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

Nomination Policy

The key nomination procedures, criteria and principles of the Company for the nomination of Directors are as follows:

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

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

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

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

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 2018, none of the members of Scientific Advisory Committee are Director of the Company:

Prof. Paul Vanhoutte *(Chairman)*
Prof. Rudolf Bauer
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 Review Period are set out below:

Committee members	**Meeting attended/ Total**
Prof. Paul Vanhoutte	1/1
Prof. Rudolf Bauer	1/1
Prof. Piu Chan	0/1
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 consolidated financial statements is set out in the "Independent Auditor's Report" on pages 116 to 123.

For the year ended 31 December 2018, the fees paid/payable to Ernst & Young for the audit service were HK$2,210,000.

Fees paid/payable to Ernst & Young for non-audit services provided to the Group for the year ended 31 December 2018 were HK$590,000. 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 Group's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate.

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

During the year ended 31 December 2018, 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 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 Director.

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

Address:	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.

During the year ended 31 December 2018, there was no change in the memorandum and articles of association of the Company. 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 year ended 31 December 2018, Mr. Lau Ka Kuen 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 - 2018 Annual Report

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 2018:

- Management conducted annual Internal Control Self-Evaluation in 2018. 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

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

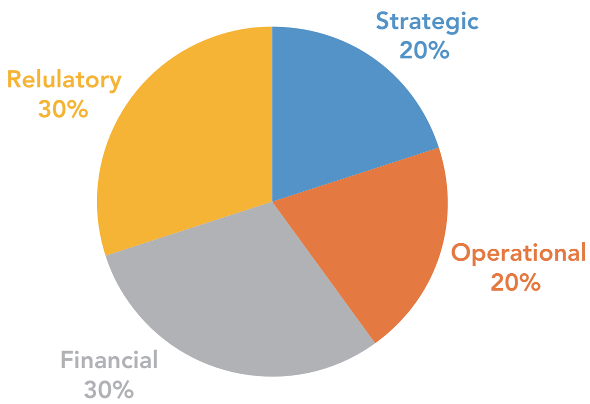
RISK MANAGEMENT REPORT

SIGNIFICANT RISKS

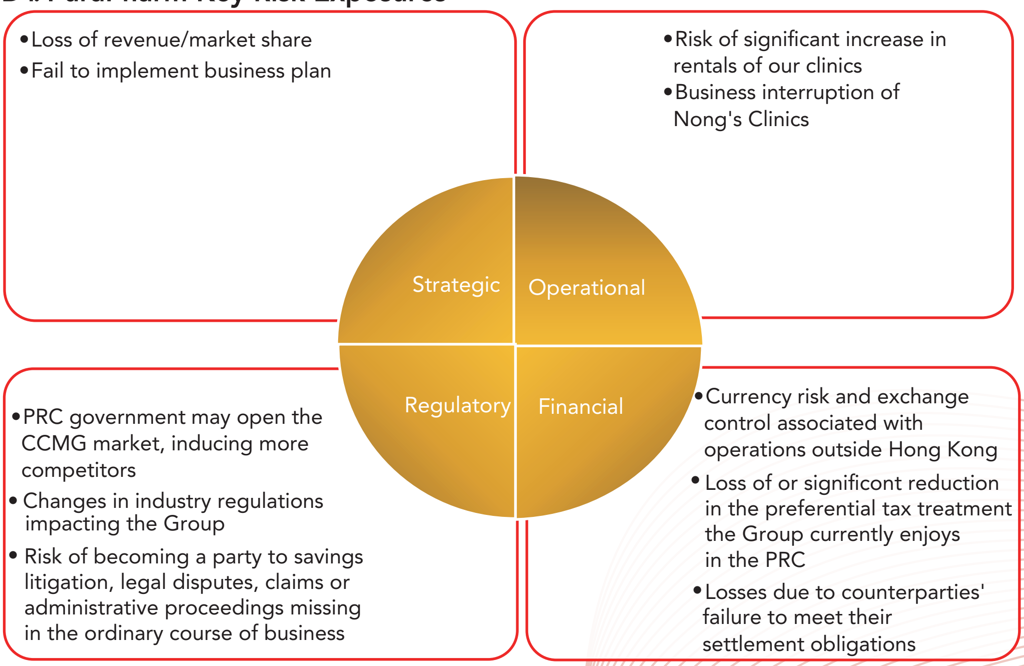
In 2018, the Board conducted an annual Group-wide risk assessment project based on the Group's ERM framework to review identified risks and assess the risks might arise from its businesses. The identified risks are rated by a combination of likelihood and consequences after considering current mitigation measures implemented regarding a risk matrix to get overall ratings. All identified risks are then ranked by the overall rating. The overall risk ratings reflect the required management attention and risk treatment effort. In the Group Risk Report, 4 categories of major risk types were identified and are illustrated in the diagram below.

The Group's Key Risk Exposures:

SIGNIFICANT RISKS



D1: PuraPharm Key Risk Exposures



Details of Key Risks Identified

Throughout the risk assessment process in 2018, 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 products
Strategic	Fail to implement business plan	• Continue monitoring the impact of market changes to the Group's plan
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
Regulatory	Changes in industry regulations impacting the Group	• Designated team to monitor and handle compliance issues related to production and product licenses • Coordinate with regulators to minimise impact of changes to the Group
Regulatory	Risk of becoming a party to various litigation, legal disputes, claims or administrative proceedings arising in the ordinary course of business	• Purchase of different insurance policies to reduce our relevant monetary loss • Engage external lawyers to review our contracts for better protection
Financial	Currency risk and exchange control associated with operations outside Hong Kong	• Consider arranging foreign currencies hedging arrangement to manage currency risk exposure • Consider making RMB loans in the PRC to support operations and expansions there
Financial	Loss of or significant reduction in the preferential tax treatment the Group currently enjoys in the PRC	• Delegated personnel to keep tracking if the Group's PRC subsidiaries meet the requirements to enjoy preferential rates • Engage professional firm in assisting the Group to handle the PRC tax issues
Financial	Losses due to counterparties' failure to meet their settlement obligations	• With guidelines to control approval of credit limit and credit terms
Operational	Risk of significant increase in rentals of our clinics	• Continue monitoring the rental market of commercial properties
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

REPORT OF THE DIRECTORS

PuraPharm Corporation Limited - 2018 Annual Report

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of these activities as required by Schedule 5 to the 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 42 to 55 of this annual report. This discussion forms part of this directors' report.

RESULTS

The Group's profit for the year ended 31 December 2018 and the Group's financial position as at that date are set out in the consolidated financial statements on pages 124 to 235.

DIVIDEND POLICY

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

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

The payment of dividend is also subject to any restrictions under the applicable laws and the Company's memorandum and articles of association.

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 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 2018, the Group had utilised approximately HK$269.6 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 utilised (in HK$ million)	Approximate amount unutilised (in HK$ million)
To expand manufacturing facilities and enhance existing production lines	86.5	30%	86.5	–
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	72.1	–
To expand distribution network into new target cities in the PRC	57.7	20%	57.7	–
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	24.5	18.8
Additional working capital of the Group	28.8	10%	28.8	–
	288.4	100%	269.6	18.8

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, and an analysis of the Group's performance using financial key performance indicators is set out on page 236 to 237. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2018 are set out in note 30 to the consolidated 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 2018.

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 2018, the Company's reserves available for distribution amounted to approximately HK$205,318,000.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2018, the Group made charitable contributions totaling HK$826,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, sales to the Group's five largest customers accounted for 17.5% (2017: 17.1%) of the total sales and sales to the largest customer included therein amounted to 5.7% (2017: 7.2%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year ended 31 December 2018 (2017: less than 30%).

DIRECTORS

The directors of the Company during the year ended 31 December 2018 were:

Chairman and Executive Director:

Mr. Chan Yu Ling, Abraham

Executive Directors:

Dr. Tsoi Kam Biu, Alvin
Mr. Chan Kin Man, Eddie
Ms. Man Yee Wai, Viola
Mr. Chan Lung Sang (retired on 25 May 2018)

Non-executive Director:

Mr. Chow, Stanley (appointed on 28 August 2018)

Independent non-executive Directors:

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

Mr. Chan Lung Sang ("Mr. Chan") retired as an Executive Director of the Company at the annual general meeting of last year held on 25 May 2018. Mr. Chan decided to retire as a Director of the Company as he would like to devote more time to his personal endeavours. Mr. Chan 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 of the Company.

In accordance with articles 108 and 112 of the Company's articles of association, Mr. Chan Yu Ling, Abraham, Ms. Man Yee Wai, Viola, Prof. Tsui Lap Chee and Mr. Chow, Stanley will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 8 to 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, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the Independent Non-executive Directors has signed an appointment letter with the Company for a term of three years unless terminated by a written notice not less than 30 days' prior to the termination serviced by either party on the other. The appointments are subject to the provisions of retirement and rotation of directors under the Articles. None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year ended 31 December 2018.

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

As at 31 December 2018, the Directors and chief executive of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Nature of Interest	Number of Shares held or interested[(1)]	Percentage of the Company's issued share capital
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Interest of controlled corporations	141,903,220 (L)[(2)(3)(4)]	57.29%
	Beneficial owner	2,968,000 (L)	1.20%
	Interest of spouse	51,716,500 (L)[(5)]	20.88%
	Beneficiary of a trust	210,000 (L)[(9)]	0.08%
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Interest of a controlled corporation	51,566,500 (L)[(6)]	20.82%
	Beneficial owner	45,000 (L)	0.02%
	Interest of spouse	145,081,220 (L)[(7)]	58.57%
	Beneficiary of a trust	105,000 (L)[(9)]	0.04%
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Interest of controlled corporations	3,125,000 (L)[(8)]	1.26%
	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L)[(9)]	0.01%
Dr. Tsoi Kam Biu, Alvin	Beneficial owner	45,000 (L)	0.02%
	Beneficiary of a trust	105,000 (L)[(9)]	0.04%
Dr. Chan Kin Keung, Eugene	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L)[(9)]	0.01%
Mr. Ho Kwok Wah, George	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L)[(9)]	0.01%
Dr. Leung Lim Kin, Simon	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L)[(9)]	0.01%
Prof. Tsui Lap Chee	Beneficial owner	6,000 (L)	0.002%
	Beneficiary of a trust	14,000 (L)[(9)]	0.01%

Notes:

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

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

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

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

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

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

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

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

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

Save as disclosed above, as at 31 December 2018, none of the Directors, chief executive of the Company and/or their respective associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, so far as was known to the Directors, the following entity (not being the Director or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

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

Notes:

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

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

Save as disclosed above, as at 31 December 2018, no person, other than a Director or chief executive of the Company, had registered an interest or short position in the Shares, underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "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 31(a) to the consolidated 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 "Share Award Scheme") in which any employee and non-executive Director of the Company and/or any member of the Group who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any member of the Group (the "Eligible Award Participants") will be entitled to participate. The purposes of the Award Scheme are:

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

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

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

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

The Board has resolved in February 2016 that a sum of HK$10,000,000 be provided for the purchase of the Shares to be awarded to the Eligible Award Participants to be selected by the Board. During the year ended 31 December 2018, no Share was purchased by the Share Award Scheme Trust.

As at 31 December 2018, the Share Award Scheme Trust held 2,496,000 shares (the "Award Shares") (31 December 2017: 3,021,000 Award Shares). During the year ended 31 December 2018, (i) no Award Share was granted; (ii) 525,000 Award Shares were vested to the Eligible Participants; and (iii) 300,000 Award Shares were forfeited due to the resignation of Eligible Award Participants.

The Group recognised a net share award expense of HK$2,114,000 for the year ended 31 December 2018 (2017: HK$2,226,000).

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Company and the Group had no connected and continuing connected transactions, which were subject to the annual reporting requirement of Chapter 14A of the Listing Rule.

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 favour of the Company (the "Deed of Non-Competition), each of the Covenantors has confirmed to the Company of its/his/her compliance with the Deed of Non-Competition during the year ended 31 December 2018.

CONTRACT OF SIGNIFICANCE

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

SUFFICIENCY OF PUBLIC FLOAT

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

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

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

AUDITOR

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

ON BEHALF OF THE BOARD

Chan Yu Ling, Abraham
Chairman

Hong Kong
27 March 2019

Independent Auditor's Report

PuraPharm Corporation Limited - 2018 Annual Report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INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of PuraPharm Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 124 to 235, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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
Impairment of goodwill	
The carrying value of goodwill in the consolidated financial statements amounted to HK$155,685,000 as at 31 December 2018. 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 was significant to our audit because the balance was material and test process involved 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 assessing if the discount rate and methodology used by the management were 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 2018; and we examined 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
Provision for impairment of trade and bills receivables	
As at 31 December 2018, the Group had trade and bills receivables of HK$290,657,000, after making a provision of HK$12,236,000. The Group uses a provision matrix to calculate expected credit losses ("ECL") for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. We focused on this area because of high level of management estimation required and due to the materiality of the amounts involved. The significant accounting estimates and disclosures about the 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 receivables and recalculated the provision matrix of ECLs to ensure mathematic accuracy. We also evaluated the assumptions used in the ECL model by 1) reviewing the credit terms and historical payment patterns of different categories of the customers to assess the reasonableness regarding the groupings of customer segments with similar loss patterns; 2) examining the underlying data used by the provision matrix by checking to the corresponding ageing and payment records; and 3) assessing the reasonableness of forward-looking adjustments by analysing the deviation between forward-looking factors and the Group's historical default rate.

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$73,847,000 as at 31 December 2018. Management engaged an independent external valuer to assess the fair value of the Group's biological assets as at 31 December 2018. 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, plantation periods, expected price and price growth rates with latest sales or plantation records and published market data. For those biological assets without historical plantation records, we have evaluated the reasonableness of the management's estimation regarding the yields and plantation periods by comparing them with the assessment result of an independent industry expert. We also evaluated the independence, competence and objectivity of the independent external valuer and independent industry expert engaged by the management to determine the valuation of the biological assets and evaluated the adequacy of the disclosures of biological assets.

Key audit matters	How our audit addressed the key audit matters
Inventory provision	
As at 31 December 2018, the Group had inventories of HK$214,033,000, after making a provision of HK$6,076,000. 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 for the determination of the appropriate carrying value of inventories. We also assessed the Group's internal controls over the inventory provision, in particularly its internal "inventory expiry status monitoring system" implemented by its Quality Control Department. We also examined the remaining expiry periods of the specific inventory items' and compared the expected future sales of inventories to the recent sales prices and sales rates. Furthermore, we recalculated the expected provision based on the 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.

- 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.

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

- 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
27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**745,503**	591,566
Cost of sales		**(290,603)**	(195,708)
Gross profit		**454,900**	395,858
Other income and gains	5	**49,615**	31,162
Selling and distribution expenses		**(229,995)**	(191,753)
Administrative expenses		**(217,026)**	(206,987)
Other expenses		**(9,084)**	(1,082)
Finance costs	7	**(21,879)**	(16,867)
PROFIT BEFORE TAX	6	**26,531**	10,331
Income tax expense	10	**(5,725)**	(8,442)
PROFIT FOR THE YEAR		**20,806**	1,889
Attributable to:			
Owners of the parent		**20,806**	1,889
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
— For profit for the year (expressed in HK cents per share)		**8.49**	0.79
Diluted			
— For profit for the year (expressed in HK cents per share)		**8.44**	0.79

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR	**20,806**	1,889
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	–	(1,201)
Income tax effect	–	198
	–	(1,003)
Exchange differences on translation of foreign operations	**(9,783)**	17,803
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(9,783)**	16,800
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**11,023**	18,689
Attributable to:		
Owners of the parent	**11,023**	18,689

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	294,676	297,059
Prepaid land lease payments	14	45,622	47,854
Intangible assets	15	36,190	35,175
Financial assets at fair value through profit or loss	16	10,741	–
Available-for-sale investment	16	–	22,110
Biological assets	19	28,386	18,903
Prepayments for non-current assets	21	13,196	8,693
Deferred tax assets	29	16,383	16,313
Goodwill	17	155,685	155,685
Total non-current assets		600,879	601,792
CURRENT ASSETS			
Inventories	18	214,033	282,479
Biological assets	19	45,461	18,244
Trade and bills receivables	20	290,657	242,603
Prepayments, other receivables and other assets	21	66,402	53,054
Tax recoverable		1,787	–
Pledged bank deposits	22	9,000	9,000
Cash and cash equivalents	22	104,884	86,805
Total current assets		732,224	692,185
CURRENT LIABILITIES			
Trade and bills payables	23	139,201	112,195
Other payables and accruals	24	71,426	69,831
Interest-bearing bank and other borrowings	25	354,028	493,744
Loans from a director	27	30,000	–
Tax payable		3,712	5,050
Government grants	28	2,358	3,274
Total current liabilities		600,725	684,094
NET CURRENT ASSETS		131,499	8,091
TOTAL ASSETS LESS CURRENT LIABILITIES		732,378	609,883

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**164,449**	54,277
Government grants	28	**3,194**	3,731
Deferred tax liabilities	29	**2,516**	2,793
Total non-current liabilities		**170,159**	60,801
Net assets		**562,219**	549,082
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**191,981**	191,981
Shares held for share award scheme	31(b)	**(8,200)**	(10,019)
Reserves	32	**378,438**	367,120
Total equity		**562,219**	549,082

Mr. Chan Yu Ling, Abraham
Director

Dr. Tsoi Kam Biu, Alvin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent										
	Share capital HK$'000 (note 30)	Share premium account HK$'000 (note 30)	Shares held for share award scheme HK$'000 (note 31(b))	Share award reserve HK$'000 (note 31(b))	Merger reserve HK$'000 (note 32)	Surplus reserves HK$'000 (note 32)	Capital reserve HK$'000 (note 32)	Available-for-sale investment revaluation reserve HK$'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 30)	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

* Dividend paid to the share award schemes (note 31 (b)) of HK$62,000 is deducted from the aggregate of dividends proposed and paid.

	Attributable to owners of the parent										
	Share capital HK$'000 (note 30)	Share premium account HK$'000 (note 30)	Shares held for share award scheme HK$'000 (note 31(b))	Share award reserve HK$'000 (note 31(b))	Merger reserve HK$'000 (note 32)	Surplus reserves HK$'000 (note 32)	Capital reserve HK$'000 (note 32)	Available-for-sale investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2017	191,981	206,672	(10,019)	2,226	1,814	27,307	(7,505)	(534)	326	136,814	549,082
Restated opening balance under HKFRS 9 (note 2.2)	–	–	–	–	–	–	–	534	–	(534)	–
At 31 December 2017 and 1 January 2018 (restated)	191,981	206,672	(10,019)	2,226	1,814	27,307	(7,505)	–	326	136,280	549,082
Profit for the year	–	–	–	–	–	–	–	–	–	20,806	20,806
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(9,783)	–	(9,783)
Total comprehensive income for the year	–	–	–	–	–	–	–	–	(9,783)	20,806	11,023
Transfer from retained profits	–	–	–	–	–	1,339	–	–	–	(1,339)	–
Recognition of equity-settled share award	–	–	–	2,725	–	–	–	–	–	–	2,725
Forfeiting of Award Shares granted under Share Award Scheme	–	–	–	(611)	–	–	–	–	–	–	(611)
Transfer of vested shares under Share Award Scheme	–	139	1,819	(1,958)	–	–	–	–	–	–	–
At 31 December 2018	191,981	206,811*	(8,200)	2,382*	1,814*	28,646*	(7,505)*	–	(9,457)*	155,747*	562,219

* These reserve accounts comprise the consolidated reserves of HK$378,438,000 (2017: HK$367,120,000) in the consolidated statement of financial position as at 31 December 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		26,531	10,331
Adjustments for:			
Finance costs	7	21,879	16,867
Bank interest income	5	(431)	(450)
Foreign exchange loss/(gain), net	5, 6	5,502	(9,138)
Fair value gain on biological assets	5	(26,553)	(9,102)
Loss/(gain) on disposal of items of property, plant and equipment	6	2,574	(123)
Net equity-settled share award expense recognised	31(b)	2,114	2,226
Depreciation of property, plant and equipment	6	33,379	23,148
Amortisation of prepaid land lease payments	6	1,396	629
Amortisation of intangible assets	6	3,917	3,688
Write-down of inventories to net realisable value	6	4,399	3,216
Impairment of trade and bills receivables	6	772	6,842
		75,479	48,134
Decrease/(increase) in inventories		75,495	(68,537)
Increase in biological assets		(26,705)	(13,268)
(Increase)/decrease in trade and bills receivables		(56,344)	32,713
Increase in prepayments, deposits and other receivables		(15,006)	(32,379)
Increase in trade and bills payables		30,886	14,695
(Decrease)/increase in government grants		(1,106)	3,351
Decrease in other payables and accruals		(1,296)	(14,230)
Cash generated from/(used in) operations		81,403	(29,521)
Interest received		431	450
Hong Kong profits tax paid		(4,572)	(327)
Overseas profits tax paid		(1,414)	(889)
PRC profit taxes paid		(3,387)	(12,465)
Net cash flows generated from/(used in) operating activities		72,461	(42,752)
Net cash flows generated from/(used in) operating activities		72,461	(42,752)

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(45,192)	(101,628)
Proceeds from disposal of items of property, plant and equipment		91	744
Addition to prepaid land lease payments		–	(10,227)
Additions to intangible assets		(2,672)	(12,697)
Acquisition of subsidiaries		–	(161,742)
Purchases of available-for-sale investments		–	(9,551)
Disposal of financial assets at fair value through profit or loss		11,685	–
Decrease in pledged time deposits, net		–	2,000
Net cash flows used in investing activities		(36,088)	(293,101)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		514,214	604,034
Repayment of bank loans and other borrowings		(548,904)	(375,968)
Loans from a director		50,000	–
Repayment of loans to a director		(20,000)	–
Interest paid		(23,334)	(18,945)
Dividends paid	11	–	(4,942)
Net cash flows (used in)/from financing activities		(28,024)	204,179
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		8,349	(131,674)
Cash and cash equivalents at beginning of year		86,805	209,129
Effect of foreign exchange rate changes, net		(4,638)	9,350
CASH AND CASH EQUIVALENTS AT END OF YEAR		90,516	86,805
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	104,884	86,805
Bank overdrafts		(14,368)	–
Cash and cash equivalents as stated in the statement of cash flows		90,516	86,805

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, plantation and trading of raw Chinese herbs, and manufacture and sale of Traditional Chinese Medicine ("TCM") decoction pieces ("中藥飲片"), as well as rendering of Chinese medical diagnostic services.

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

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

Particulars of the Company's 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	Indirect	Principal activities
PuraPharm (Nanning) Pharmaceuticals Co. Limited[(a)] [(d)]	People's Republic of China ("PRC")/ Mainland China	Chinese yuan ("RMB") 170,000,000	–	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

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PuraPharm Australia Pty Ltd.[a]	Australia	Australian Dollar ("AU$") 1	–	100%	Trading of Chinese healthcare products
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

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 7 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
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

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 19 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
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") 180,010,000	–	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[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
Nong's (Nanning) Healthcare Co., Ltd.[a] [d]	PRC	RMB2,000,000	–	100%	Provision of Chinese medical diagnostic services
Nong's (Shanghai) Healthcare Co., Ltd.[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
Guizhou Jinping Gold Sparkle Chinese Medicine Co.,Ltd.[a] [d]	PRC	RMB10,000,000	–	100%	Plantation and trading of raw Chinese herbs
上海培力營銷諮詢服務有限公司[a] [d]	PRC	RMB2,000,000	–	100%	Provision of marketing consultation services
南寧農本方中醫門診部有限公司[a] [d]	PRC	RMB3,000,000	–	100%	Provision of marketing 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 financial assets at fair value through profit or loss, available-for-sale 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 2018. 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)

Basis of consolidation (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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Classifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfer of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 15 and HKFRS 9, the adoption of the above new and revised standards has had no significant financial effect on these financial statements of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 15

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. 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 disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

No cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The adoption of HKFRS 15 has had no impact on each financial statement line item as at 31 December 2018 and for the year ended 31 December 2018 on other comprehensive income or on the Group's operating, investing and financing cash flows.

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 15 (continued)

(i) Sale of goods with variable consideration

Some contracts for the sale of goods provide customers with a right of return and volume rebates. Before adopting HKFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and volume rebates. If revenue could not be reliably measured, the Group deferred the recognition of revenue until the uncertainty was resolved. Under HKFRS 15, rights of return and volume rebates give rise to variable consideration which is determined using the expected value method or the most likely amount method.

Rights of return

For a contract that provides a customer with a right to return the goods within a specified period, the Group previously estimated expected returns based on the average historical return rate. Before the adoption of HKFRS 15, the amount of revenue related to the expected returns was deferred and recognised as deferred revenue which was included in other payables and accruals in the statement of financial position with a corresponding adjustment to cost of sales. The initial carrying amount of goods expected to be returned was included in inventories.

Prior to the adoption of HKFRS 15, the amount of revenue related to the expected returns was adjusted and recognised in the statement of financial position in "Other payables" within account "Other payables and accruals" with a corresponding adjustment to the Cost of sales. Upon the adoption of HKFRS 15, the Group presents refund liabilities as "Refund liabilities" within the account "Other payables and accruals" and an asset for the right to recover products from customers as "Right-of-return assets" within the account "Prepayments, other receivables and other assets", respectively. Accordingly, the Group reclassified the provision for expected returns of HK$2,482,000 included in "Other payable" within account "Other payables and accruals" as at 31 December 2017 to "Refund liabilities" of HK$3,717,000 within account "Other payables and accruals" and "Right-of-return assets" of HK$1,235,000 within account "Prepayments, other receivables and other assets" as at 1 January 2018.

Upon adoption of HKFRS 15, the Group recognised a right-of-return asset which is included in prepayments, other receivables and other assets and is measured at the former carrying amount of the goods to be returned less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. In addition, a refund liability was recognised based on the amount that the Group expects to return to the customers using the expected value method.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 15 (continued)

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as "Advance from customers" within account "Other payables and accruals". Under HKFRS 15, the amount is classified as "Contract liabilities" within account "Other payables and accruals".

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$5,026,000 from "Advance from customers" as at 31 December 2017 to "Contract liabilities" as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$7,867,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of industrial products.

HKFRS 9

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

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 9 (continued)

Classification and measurement (continued)

A reconciliation between the carrying amounts under HKAS 39 and the balance reported under HKFRS 9 as at January 2018 is as follows:

		HKAS 39 measurement					HKFRS 9 measurement	
		Category	Amount	Reclassification	ECL	Other	Amount	Category
	Note		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	
Financial assets								
Available-for-sale investments		AFS[1]	22,110	(22,110)	–	–	–	N/A
To: Financial assets at fair value through profit or loss	(i)			(22,110)	–	–		
Financial assets at fair value through profit or loss		N/A	–	(22,110)	–	–	22,110	FVPL[2] (mandatory)
From: Available-for-sale investments	(i)			(22,110)	–	–		
Trade and bills receivables		L&R[3]	242,603	–	–	–	242,603	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	26,948	–	–	–	26,948	AC
Pledged bank deposits		L&R	9,000	–	–	–	9,000	AC
Cash and cash equivalents		L&R	86,805	–	–	–	86,805	AC
			387,466	–	–	–	387,466	
Total assets			1,293,977	–	–	–	1,293,977	
Financial liabilities								
Trade and bills payables		AC	112,195	–	–	–	112,195	AC
Financial liabilities included in other payables and accruals		AC	52,726	–	–	–	52,726	AC
Interest-bearing bank and other borrowings		AC	548,021	–	–	–	548,021	AC
			712,942	–	–	–	712,942	
Total liabilities			744,895	–	–	–	744,895	

1 AFS: Available-for-sale investments
2 FVPL: Financial assets at fair value through profit or loss
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 9 (continued)

Classification and measurement (continued)

Note:

(i) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

Impact on reserves and retained profits

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKFRS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
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 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)

HKFRS 16 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 will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets and lease liabilities of HK$49,476,000 will be recognised at 1 January 2019.

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

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

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

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 (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The 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.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

This category includes life insurance policies which the Group had not irrevocably elected to classify at fair value through other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

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 (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (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 is reported as interest income, and is recognised in the statement of profit or loss as other income in accordance with the policy set out for "Revenue recognition (applicable before 1 January 2018)" 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

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

General approach

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

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

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

Simplified approach

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

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.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 cannot be measured reliably, the biological asset shall be measured at its cost. Any resultant gain or loss arising from changes in fair value less costs to sell is charged to 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products during the warranty period. Provisions for product these assurance-type warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

(a) Sale of goods

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

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

(i) Rights of return

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

(ii) Volume rebates

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

(b) Rendering of services

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

Other income

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

Revenue recognition (applicable before 1 January 2018)

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)

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Right-of-return assets (applicable from 1 January 2018)

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

Refund liabilities (applicable from 1 January 2018)

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

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.

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.

As compared with the segment information included in the consolidated financial statements for the year ended 31 December 2017, the government grants derived from the plantation segment and China CCMG segment were included in the corresponding segments; and fair value gain on biological assets were included in the plantation segment for the year ended 31 December 2018. Accordingly, certain comparative amounts have been restated to conform with current year's presentation and disclosure.

4. OPERATING SEGMENT INFORMATION (continued)

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2018 and 2017.

31 December 2018

	China CCMG HK$'000	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Plantation HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue (note 5):							
Revenue to external customers	324,611	171,772	99,024	95,870	54,226	–	745,503
Intersegment sales	88,406	16,579	1,161	–	7,497	(113,643)	–
	413,017	188,351	100,185	95,870	61,723	(113,643)	745,503
Segment results	42,037	39,461	19,393	(22,588)	27,880	–	106,183
Reconciliations:							
Interest income							318
Foreign exchange loss, net							(5,502)
Equity-settled share award scheme							(2,114)
Finance costs							(21,879)
Corporate and other unallocated expenses							(50,475)
Profit before tax							26,531
Income tax expense							(5,725)
Net profit							20,806
Other segment information:							
Depreciation and amortisation	14,349	3,328	4,041	11,004	5,970	–	38,692
Loss on disposal of items of property, plant and equipment	233	91	–	2,250	–	–	2,574
Write-down of inventories to net realisable value	2,224	1,175	1,000	–	–	–	4,399
Impairment of trade and bills receivables	772	–	–	–	–	–	772

4. OPERATING SEGMENT INFORMATION (continued)

31 December 2017

	China CCMG HK$'000 (Restated)	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Plantation HK$'000 (Restated)	Elimination HK$'000	Total HK$'000 (Restated)
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	24,822	45,095	6,225	(6,975)	11,973	—	81,140
Reconciliations:							
Interest income							450
Foreign exchange gain, net							9,138
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)

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Hong Kong	312,757	306,129
Mainland China	382,786	249,160
Other countries/regions	49,960	36,277
	745,503	591,566

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

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Hong Kong	202,744	51,566
Mainland China	350,851	469,609
Other countries/regions	20,160	42,194
	573,755	563,369

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

Information about major customer

For the years ended 31 December 2018 and 2017, there was no single customer from which more than 10% of the Group's total revenue was derived.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Sale of CCMG products	**566,758**	458,093
Sale of Chinese healthcare products	**99,024**	85,120
Sale of raw Chinese herbs	**54,226**	26,368
Rendering of Diagnostic Services	**25,495**	21,985
	745,503	591,566

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	**Sale of goods HK$'000**	**Diagnostic services HK$'000**	**Total HK$'000**
Type of goods or services			
Sale of goods	720,008	–	720,008
Rendering of services	–	25,495	25,495
Total revenue from contracts with customers	720,008	25,495	745,503
Geographical markets			
Hong Kong	287,950	24,807	312,757
Mainland China	382,181	605	382,786
Other countries/regions	49,877	83	49,960
Total revenue from contracts with customers	720,008	25,495	745,503
Timing of revenue recognition			
Goods transferred at a point in time	720,008	–	720,008
Services transferred over time	–	25,495	25,495
Total revenue from contracts with customers	720,008	25,495	745,503

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

For the year ended 31 December 2018

Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Revenue from contracts with customers			
External customers	720,008	25,495	745,503
Intersegment sales	113,643	–	113,643
	833,651	25,495	859,146
Intersegment adjustments and eliminations	(113,643)	–	(113,643)
Total revenue from contracts with customers	720,008	25,495	745,503

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

	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	4,720
Rendering of services	306
	5,026

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

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

Sale of goods

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

Rendering of services

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

	Notes	2018 HK$'000	2017 HK$'000
Other income and gains			
Fair value gain on biological assets, net	19	26,553	9,102
Foreign exchange gain, net		–	9,138
Government grants*	28	16,746	8,755
Gain from the sale of equipment and accessories		2,374	2,393
Fair value gain on financial assets at fair value through profit or loss		320	–
Bank interest income		431	450
Others		3,191	1,324
		49,615	31,162

* 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):

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		277,024	185,163
Cost of services provided		13,579	10,545
Depreciation	13	33,379	23,148
Amortisation of:			
Prepaid land lease payments	14	1,396	629
Intangible assets	15	3,917	3,688
		5,313	4,317
Research and development costs*		26,367	19,284
Minimum lease payments under operating leases:			
Office equipment		221	215
Land and buildings		42,200	33,783
		42,421	33,998
Auditors' remuneration		3,312	3,115
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		87,252	103,909
Pension scheme contributions		14,919	14,750
Equity-settled share option expense		996	1,301
Severance payments		5,773	–
		108,940	119,960
Foreign exchange (gain)/loss, net**		5,502	(9,138)
Impairment of trade and bills receivables	20	772	6,842
Write-down of inventories to net realisable value***	18	4,399	3,216
Fair value gain on biological assets, net	5,19	(26,553)	(9,102)
(Gain)/loss on disposal of items of property, plant and equipment		2,574	(123)

* HK$648,000 (2017: HK$848,000) disclosed in the item of "Depreciation" and HK$8,416,000 (2017: HK$6,915,000) disclosed in the item of "Employee benefit expense" were also included in the item of "Research and development costs".

** The foreign exchange loss, net was included in "Other expense" in the consolidated statement of profit or loss for the year ended 31 December 2018.

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 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 2018 and 2017.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank loans and other borrowings	24,727	18,945
Less: Interest capitalised	(2,848)	(2,078)
	21,879	16,867

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	
	2018 HK$'000	2017 HK$'000
Fees	938	1,000
Other emoluments:		
Salaries, allowances and benefits in kind	3,677	7,846
Pension scheme contributions	54	57
Equity-settled share award scheme	1,118	925
	4,849	8,828
	5,787	9,828

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:

2018	**Fees** **HK$'000**	**Equity-settled share award scheme** **HK$'000**	**Total remuneration** **HK$'000**
Dr. Leung Lim Kin, Simon	**200**	**28**	**228**
Prof. Tsui Lap Chee	**200**	**28**	**228**
Dr. Chan Kin Keung, Eugene	**200**	**28**	**228**
Mr. Ho Kwok Wah, George	**200**	**28**	**228**
	800	**112**	**912**

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

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2018 and 2017.

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
2018					
Chief executive and executive director					
Mr. Chan Yu Ling, Abraham	–	418	1,440	18	1,876
Executive directors					
Mr. Chan Kin Man, Eddie	–	28	200	–	228
Dr. Tsoi Kam Biu, Alvin	–	209	821	18	1,048
Ms. Man Yee Wai, Viola	–	209	616	18	843
Mr. Chan Lung Sang*	–	142	600	–	742
	–	588	2,237	36	2,861
Non-executive directors					
Mr. Chow, Stanley**	138	–	–	–	138
	138	1,006	3,677	54	4,875

* Mr. Chan Lung Sung retired on 25 May 2018.

** Mr. Chow, Stanley was appointed as the non-executive director of the Group by the board of directors on 28 August 2018.

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

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

	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

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

There was no arrangement under which executive directors waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2017: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	3,869	5,145
Equity-settled share owned scheme	627	326
Pension scheme contributions	54	54
	4,550	5,525

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 2018	2017
HK$1,000,001 to HK$1,500,000	3	–
HK$1,500,001 to HK$2,000,000	–	3
	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, United States and Japan profits taxes have been provided at the rates of 16.5% (2017: 16.5%), 24% (2017: 40%) and 23.2% (2017: 40%) on the estimated assessable profits arising in Hong Kong, U.S. and Japan during the years ended 31 December 2018 and 2017. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, Purapharm (Nanning) Pharmaceuticals Co., Limited ("PuraPharm Nanning"), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15%.

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

10. INCOME TAX (continued)

	2018 HK$'000	2017 HK$'000
Current	6,203	11,158
Deferred (note 29)	(478)	(2,716)
Total tax charge for the year	5,725	8,442

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:

2018

	Mainland China		Hong Kong		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	30,067		3,538		(7,074)		26,531	
Tax at the statutory tax rates	7,516	25.0	584	16.5	362	(5.1)	8,462	31.9
Lower tax rate enacted by local authority	(1,286)	(4.3)	–	–	–	–	(1,286)	(4.8)
Preferential income tax for agriculture business	(6,656)	(22.1)	–	–	–	–	(6,656)	(25.1)
Income not subject to tax	–	–	(122)	(3.4)	–	–	(122)	(0.5)
Tax incentive on eligible expenses	(1,556)	(5.2)	–	–	–	–	(1,556)	(5.9)
Expenses not deductible for tax	79	0.3	423	12.0	–	–	502	1.9
Tax losses utilised from previous years	–	–	(10)	(0.3)	–	–	(10)	(0.0)
Tax losses not recognised	2,654	8.8	1,718	48.6	2,019	(28.5)	6,391	24.1
Tax charge at the Group's effective rate	751	2.5	2,593	73.3	2,381	(33.6)	5,725	21.6

10. INCOME TAX (continued)

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

11. DIVIDENDS

No dividend was proposed for the year ended 31 December 2018 and 2017.

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

	2018	2017
Earnings per share attributable to ordinary equity holders of the parent		
— Basic (HK cents)	8.49	0.79
— Diluted (HK cents)	8.44	0.79

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

(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 2018 excluding ordinary shares purchased by the Group and held for Award Scheme (note 31(b)).

	2018	2017
Profit attributable to ordinary equity holders of the parent (HK$'000)	20,806	1,889
Weighted average number of ordinary shares in issue	244,981,715	237,974,905
Basic earnings per share (expressed in HK cents per share)	8.49	0.79

The calculation of the weighted average number of ordinary shares amounting to 244,981,715 (2017: 237,974,905) in issue for the year ended 31 December 2018 is as follows:

	Notes	2018	2017
Number of issued shares on 1 January	30	247,717,920	225,000,000
Adjustment for shares held for share award scheme	31(b)	(2,736,205)	(3,021,000)
Effect of issue of shares on 19 April 2017		–	15,995,905
Weighted average number of ordinary shares		244,981,715	237,974,905

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

(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	2018	2017
Profit attributable to the ordinary equity holders of the parent (HK$'000)		**20,806**	1,889
Weighted average number of ordinary shares in issue during the year		**244,981,715**	237,974,905
Adjustment for Award Shares	31(b)	**1,527,260**	1,117,671
Weighted average number of ordinary shares for diluted earnings per share calculation		**246,508,975**	239,092,576
Diluted earnings per share (expressed in HK cents per share)		**8.44**	0.79

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 2018							
At 31 December 2017 and at 1 January 2018:							
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
Cost at 1 January 2018, net of accumulated depreciation	85,680	26,574	70,428	11,928	5,663	96,786	297,059
Additions	1,037	5,242	4,842	5,363	321	23,874	40,679
Interest capitalised	–	–	–	–	–	2,848	2,848
Disposals	–	(2,487)	(58)	(89)	–	–	(2,634)
Depreciation provided during the year	(6,266)	(10,454)	(10,335)	(4,944)	(1,380)	–	(33,379)
Transfers	31,311	10,679	9,594	1,977	190	(53,751)	–
Exchange realignment	(2,989)	(387)	(1,972)	(1)	(21)	(4,527)	(9,897)
At 31 December 2018	108,773	29,167	72,499	14,234	4,773	65,230	294,676
At 31 December 2018:							
Cost	122,272	54,661	139,962	34,958	9,657	65,230	426,740
Accumulated depreciation	(13,499)	(25,494)	(67,463)	(20,724)	(4,884)	–	(132,064)
Net carrying amount	108,773	29,167	72,499	14,234	4,773	65,230	294,676

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 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	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

As at 31 December 2018, certain of the Group's buildings, machinery and equipment and office equipment and furniture with an aggregate net carrying amount of approximately HK$162,246,000 (2017: HK$137,113,000) were pledged to secure bank loans granted to the Group (note 25).

As at 31 December 2018, the Group's machinery and equipment and construction in progress with a net carrying amount of RMB7,370,967 (2017: Nil) were held under finance leases.

14. PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	49,932	23,576
Addition	–	10,227
Acquisition of subsidiaries	–	14,510
Recognised during the year	(1,396)	(629)
Exchange realignment	(1,358)	2,248
Carrying amount at 31 December	47,178	49,932
Current portion included in prepayments other receivables and other assets	(1,556)	(2,078)
Non-current portion	45,622	47,854

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

As at 31 December 2018, certain of the Group's leasehold land with a net carrying amount of approximately HK$24,916,000 (2017: HK$25,696,000) were pledged to secure bank loans granted to the Group (note 25).

31 December 2018

15. INTANGIBLE ASSETS

	Trademarks HK$'000	Patents HK$'000	Licences HK$'000	Software HK$'000	Total HK$'000
31 December 2018					
At 31 December 2017 and at 1 January 2018:					
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
Cost at 1 January 2018, net of accumulated amortisation	21,080	189	–	13,906	35,175
Additions	4,143	319	–	456	4,918
Amortisation provided during the year	(1,955)	(260)	–	(1,702)	(3,917)
Exchange realignment	–	–	–	14	14
At 31 December 2018	23,268	248	–	12,674	36,190
At 31 December 2018:					
Cost	31,469	777	1,281	18,417	51,944
Accumulated amortisation	(8,201)	(529)	(1,281)	(5,743)	(15,754)
Net carrying amount	23,268	248	–	12,674	36,190

15. INTANGIBLE ASSETS (continued)

	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	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

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENT

	2018 HK$'000	2017 HK$'000
Financial assets at fair value through profit or loss		
Life insurance policies, at fair value	**10,741**	–
Available-for-sale investment		
Life insurance policies, at fair value	–	22,110

The Group financial assets at fair value through profit or loss represented the two life insurance policies (2017: four) to insure an executive director as at 31 December 2018. Under the policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for the policy and may surrender the insurance policies any time by making a written request and receive cash based on the surrender value of the policies at the date of withdrawal, which is calculated by the insurer. In the opinion of the directors, the surrender value of the policies provided by the insurance company is the best approximation of its fair value, which is categorised within Level 3 of the fair value hierarchy. The life insurance policies were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

As at 31 December 2018 and 2017, the Group's life insurance policies were pledged as security for bank facilities granted to the Group. Further details are contained in note 25 to the financial statements.

In the opinion of the directors, the Group's life insurance policies would not be surrendered within the next 12 months and were therefore classified as non-current assets.

17. GOODWILL

	2018 HK$'000	2017 HK$'000
At 1 January	**155,685**	–
Acquisition of subsidiaries	–	155,685
At 31 December	**155,685**	155,685

17. GOODWILL (continued)

Impairment testing of goodwill

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

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

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

	31 December 2018 HK$'000	31 December 2017 HK$'000
Plantation CGU	**134,692**	134,692
Chinese herbal products CGU	**13,705**	13,705
SODX CGU	**7,288**	7,288
	155,685	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 2018	
	Growth rate	**Pre-tax discount rate**
Plantation CGU	**2.7%**	**15.0%**
Chinese herbal products CGU	**2.0%**	**21.1%**
SODX CGU	**1.1%**	**12.0%**

Assumptions were used in the value in use calculation of each CGU as at 31 December 2018. 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.

17. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

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

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

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

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

18. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	84,686	93,569
Work in progress	45,671	48,535
Finished goods	89,752	143,740
	220,109	285,844
Less: Provision	(6,076)	(3,365)
	214,033	282,479

For the year ended 31 December 2018, the write-down of inventories recognised at cost of sales amounted to HK$4,399,000 (2017: HK$3,216,000).

At 31 December 2018, the Group's inventories with a carrying amount of HK$40,317,000 (2017: HK$41,479,000) were pledged as security for the loans granted to the Group (note 25).

19. BIOLOGICAL ASSETS

	2018 HK$'000	2017 HK$'000
As at 1 January	37,147	–
Acquisition of subsidiaries	–	13,243
Addition during the year	26,705	16,624
Fair value gain on biological assets, net	26,553	9,102
Harvest during the year	(14,380)	(2,889)
Exchange realignment	(2,178)	1,067
	73,847	37,147
Portion classified as non-current portion	(28,386)	(18,903)
Current portion	45,461	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$14,380,000 (2017: HK$2,889,000) during the year ended 31 December 2018.

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

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

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

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

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

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

(v) a market-derived discount rate of 15% 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

	2018 HK$'000	2017 HK$'000
Trade receivables	285,379	246,915
Bills receivable	17,514	7,501
	302,893	254,416
Less: Impairment of trade and bills receivables	(12,236)	(11,813)
	290,657	242,603

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to six months, extending up to longer periods for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. As at 31 December 2018, the Group had certain concentrations of credit risk as 7% (2017: 17%) of the Group's trade and bills receivables were due from a company in which significantly influenced by Mr. He Ding Xiang ("Mr. He") (2017: companies controlled by Mr. He), a director of the Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. 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 ageing analysis of the trade and bills receivables as at 31 December 2018 and 2017, based on the invoice date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	103,620	60,242
1 to 3 months	58,895	55,821
3 to 6 months	44,861	49,069
Over 6 months	83,281	77,471
	290,657	242,603

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	11,813	4,517
Impairment losses	772	6,842
Exchange realignment	(349)	454
At end of year	12,236	11,813

20. TRADE AND BILLS RECEIVABLES (continued)

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

Group A

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.07%	1.72%	18.49%	100.0%	3.03%
Gross carrying amount (HK$'000)	102,480	37,335	3,432	3,083	146,330
Expected credit losses (HK$'000)	72	642	635	3,083	4,432

Group B

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.00%	0.80%	10.55%	100.00%	15.60%
Gross carrying amount (HK$'000)	38,638	2,603	52	7,602	48,895
Expected credit losses (HK$'000)	–	21	5	7,602	7,628

20. TRADE AND BILLS RECEIVABLES (continued)

Impairment under HKFRS 9 for the year ended 31 December 2018 (continued)

As at 31 December 2018 (continued)

Group C

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.00%	0.00%	17.36%	100.00%	0.64%
Gross carrying amount (HK$'000)	18,230	34	298	67	18,629
Expected credit losses (HK$'000)	–	–	52	67	119

Group D

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.00%	0.00%	0.52%	0.00%	0.08%
Gross carrying amount (HK$'000)	29,243	31,217	11,065	–	71,525
Expected credit losses (HK$'000)	–	–	57	–	57

Total

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Gross carrying amount (HK$'000)	188,591	71,189	14,847	10,752	285,379
Expected credit losses (HK$'000)	72	663	749	10,752	12,236

20. TRADE AND BILLS RECEIVABLES (continued)

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables was a provision for individually impaired trade and bills receivables of HK$11,813,000 with a carrying amount before provision of HK$31,969,000 for the year ended 31 December 2017.

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.

The ageing analysis of the trade receivables as at 31 December 2017 that are were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	107,148
Less than 1 month past due	41,078
1 to 2 months past due	10,352
2 to 3 months past due	4,725
Over 3 months past due	59,144
	222,447

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the Directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral or other credit enhancements over these balances.

At 31 December 2018, trade receivables of HK$92,693,000 (2017: HK$28,304,000) were pledged as security for the Group's bank loans (note 25).

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Prepayments	47,425	34,799
Receivables from third party agents	790	157
Right-of-return assets	2,213	–
Deposits and other receivables	29,413	27,041
	79,841	61,997
Less: Impairment allowance	(243)	(250)
	79,598	61,747
Portion classified as non-current	(13,196)	(8,693)
Current portion	66,402	53,054

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

	2018 HK$'000	2017 HK$'000
At 1 January	250	235
Exchange realignment	(7)	15
At 31 December	243	250

Included in the above provision for impairment of other receivables was a provision for individually impaired other receivables of HK$243,000 (2017: HK$250,000) with a carrying amount before provision of HK$243,000 (2017: HK$250,000) as at ended 31 December 2018. The Group does not hold any collateral or other credit enhancements over these balances.

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default and expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The financial assets included in the above balance were categorised in stage 1 at the year of the reporting period. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. During the current year, except for the default receivables, the Group estimated the expected loss rate for the other receivables is minimal.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**104,884**	86,805
Time deposits	**9,000**	9,000
	113,884	95,805
Less: Pledged time deposits for bank loans	**(9,000)**	(9,000)
Cash and cash equivalents	**104,884**	86,805
Denominated in RMB	**77,959**	42,918
Denominated in HK$	**12,591**	25,221
Denominated in US$	**5,038**	8,884
Denominated in JPY	**8,403**	7,489
Denominated in AU$	**772**	1,602
Denominated in CAD	**121**	691
Cash and cash equivalents	**104,884**	86,805

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

	2018 HK$'000	2017 HK$'000
Within 1 month	41,106	35,891
1 to 2 months	5,939	15,056
2 to 3 months	14,007	15,331
Over 3 months	78,149	45,917
	139,201	112,195

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 company significantly influenced by Mr. He (2017: companies controlled by Mr. He) of HK$3,840,000 (2017: HK$16,606,000) as at 31 December 2018.

24. OTHER PAYABLES AND ACCRUALS

	Notes	2018 HK$'000	2017 HK$'000
Other payables	(a)	36,079	34,741
Accruals		20,755	30,064
Advance from customers		–	5,026
Contract liabilities	(b)	7,867	–
Refund liabilities		6,725	–
		71,426	69,831

Notes:

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

(b) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers		
Sale of goods	7,498	4,720
Rendering of services	369	306
Total contract liabilities	7,867	5,026

Contract liabilities include short-term advances received for sale of goods and rendering of services. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the sale of goods and rendering of services.

31 December 2018

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018 Effective interest rate (%)	2018 Maturity	2018 HK$'000	2017 Effective interest rate (%)	2017 Maturity	2017 HK$'000
Current						
Bank overdraft — secured (a)	4.00–4.13	On demand	6,478	–	–	–
Bank overdraft — unsecured (a)	5.00,5.13	On demand	7,890	–	–	–
Bank loans — secured	0.85–5.70	2019	138,479	4.35–5.22	2018	123,301
Bank loans — secured (a)	2.00-4.57	On demand	72,574	3.06–5.22	On demand	36,861
Bank loans — unsecured	4.66	2019	1,728	–	–	–
Bank loans — unsecured (a)	2.60–6.83	On demand	119,083	1.85–6.00	On demand	333,582
Finance lease payables (note 26)	10.75	2019	7,796			–
			354,028			493,744
Non-Current						
Bank loans — secured	0.85–8.00	2020-2028	107,115	0.85–8.00	2021,2028	39,463
Bank loans and other borrowings — unsecured	4.66–6.18	2021,2022	41,008	4.66	2022	14,814
Fiance lease payables (Note 26)	10.75	2021	16,326			–
			164,449			54,277
			518,477			548,021

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	354,028	493,744
In the second year	55,044	4,303
In the third to fifth years, inclusive	107,696	47,932
Beyond five years	1,709	2,042
	518,477	548,021

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

Interest-bearing bank and other borrowings are denominated in:

	2018 HK$'000	2017 HK$'000
HK$	**253,128**	363,311
RMB	**254,593**	173,668
JPY	**3,624**	3,910
US$	**7,132**	7,132
	518,477	548,021

(a) HK Interpretation 5 "Presentation of Financial Statements — classification by the borrower of a term loan that contains a repayment on demand clause" requires that a loan which includes a clause that gives the lender the unconditional right to call 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$206,025,000 (2017: HK$278,065,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$53,154,000 (2017: HK$4,875,000) 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 2018, the Group's bank loans amounting to approximately HK$54,715,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since they all included the repayment on demand clause and have already been classified as a current liabilities as mentioned in note 25(a). The Group had obtained waivers for the non-compliance loans of HK$36,478,000 and no demand for immediate repayment was made in respect of the relevant cash loans on 11 March 2019.

As at 31 December 2017, the Group's bank loans amounting to approximately HK$195,888,000 were not in compliance with certain financial loan covenants, among which a balance of HK$75,315,000 that is repayable after one year from the end of 2017 had been classified as current liabilities, while the Group had obtain waivers for the non-compliance loans of HK$153,386,000 and no demand for immediate repayment was made in respect of the relevant cash loans.

(c) As at 31 December 2018, the Group's bank facilities amounted to HK$534,084,000 (2017: HK$651,369,000), of which HK$494,355,000 (2017: HK$548,021,000) had been utilised.

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

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

	Notes	Carrying value 2018 HK$'000	2017 HK$'000
Property, plant and equipment	13	**169,617**	137,113
Prepaid land lease payments	14	**24,916**	25,696
Financial assets at fair value through profit or loss/Available-for-sale investments	16	**10,741**	10,562
Inventories	18	**40,317**	41,479
Trade and bills receivables	20	**92,693**	28,304
Pledged bank deposits	22	**9,000**	9,000
		347,284	252,154

26. FINANCE LEASE PAYABLES

The Group leased certain of its machineries and equipment and these leases are classified as finance leases with remaining lease terms with 3 years (2017: Nil) as at 31 December 2018. According to the sale and leaseback agreements, if no default occurs during the lease term, the ownership of the machineries and equipment shall be automatically transferred to the lessee at a price of HK$115 (or RMB100).

Below table represents the loans borrowed by way of the sale and leaseback arrangements as at 31 December 2018:

Date of incurrence	Principal amount	Effective interest rate (%)	Maturity	Guarantee deposit
2018/12/29	RMB24,465,842	10.75	2021/12/29	RMB2,200,000

26. FINANCE LEASE PAYABLES (continued)

As at 31 December 2018, the Group's machineries and equipment with a net carrying amount of HK$7,370,967 (2017: Nil) were held under finance leases.

	Minimum lease payments 2018 HK$'000	Present value of minimum lease payments 2018 HK$'000
Amounts payable:		
Within one year	**10,008**	**7,796**
In the second year	**9,394**	**8,032**
In the third year	**8,780**	**8,294**
Total minimum finance lease payments	**28,182**	**24,122**
Future finance charges	**(4,060)**	
Total net finance lease payables	**24,122**	
Portion classified as current liabilities (note 25)	**(7,796)**	
Non-current portion (note 25)	**16,326**	

27. LOANS FROM A DIRECTOR

	2018 HK$'000	2017 HK$'000
Loans from a Director	30,000	–

On 14 March 2018, the Group entered into a loan agreement with Mr. Abraham Chan, in which Mr. Abraham Chan agreed to make loan facility up to HK$50 million to the Group for financing the general corporate funding requirements. During the year ended 31 December 2018, the Group draw down HK$50 million and repaid HK$20 million for such facility.

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.

28. GOVERNMENT GRANTS

	2018 HK$'000	2017 HK$'000
At 1 January	7,005	3,352
Government grants received during the year	15,450	12,182
Amounts released to the statement of profit or loss (note 5)	(16,746)	(8,755)
Exchange realignment	(157)	226
At 31 December	5,552	7,005
Portion classified as current liabilities	(2,358)	(3,274)
Non-current portion	3,194	3,731

29. DEFERRED TAX

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

Deferred tax assets

	2018					
	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 HK$'000	Total HK$'000
At 1 January 2018	(155)	13,474	952	2,522	2,890	19,683
Deferred tax credited to the statement of profit or loss during the year (note 10)	155	1,906	(97)	(1,765)	214	413
Exchange realignment	–	(55)	(23)	–	(85)	(163)
Gross deferred tax assets at 31 December 2018	–	15,325	832	757	3,019	19,933

	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 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	–	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

29. DEFERRED TAX (continued)

Deferred tax liabilities

	2018 Depreciation and amortisation allowance in excess of related depreciation and amortisation HK$'000
At 1 January 2018	6,163
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	(65)
Exchange realignment	(32)
Gross deferred tax liabilities at 31 December 2018	6,066

	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	–	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

29. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 **HK$'000**	2017 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**16,383**	16,313
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(2,516)**	(2,793)
	13,867	13,520

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 2018, 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$239,738,000 (2017: HK$227,291,000).

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

30. SHARE CAPITAL

Shares

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

30. SHARE CAPITAL (Continued)

Shares (Continued)

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

	2017			
	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	22,717,920	17,606	60,998	78,604
Final 2016 dividend declared	–	–	(4,942)	(4,942)
At 31 December 2017	247,717,920	191,981	206,672	398,653

On 19 April 2017, the Group completed the acquisition of 100% equity interests in Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd., which were 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.

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

31. 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.

31. 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 2016 that a sum of HK$10,000,000 has provided for the purchase of the Company's shares to be awarded to the Eligible Award Participants to be selected by the Board.

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

Two of the Eligible Award Participants, who were granted Award Shares on 16 June 2017, have resigned during the year ended 31 December 2018 and therefore, their 300,000 shares of Award Shares were forfeited.

31. SHARE OPTION SCHEME (continued)

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

Details of the equity-settled share award expenses of the Group during the year ended 31 December 2018 are listed as below:

	2018 HK$'000	2017 HK$'000
Gross amount of recognition of share award expenses	2,725	2,226
Forfeited during the year	(611)	–
Net share award expenses recognised during the year	2,114	2,226
Less: Included in directors' remuneration	(1,185)	(925)
Employee benefit expenses	929	1,301

During the year ended 31 December 2018, no share (2017: Nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 525,000 shares were vested on 16 June 2018. As at 31 December 2018, the Share Award Scheme Trust held 2,496,000 (31 December 2017: 3,021,000) shares of the Company.

Summary of the Award Shares granted is as follows:

				Number of Awarded Shares		
Date of Grant	Number of outstanding Awarded Shares as at the Date of Grant	Fair value HK$'000	Vesting Date	Vested during the period	Forfeited during the period	Outstanding as at 31 December 2018
16 June 2017	615,000	2,295	16 June 2018	(525,000)	(90,000)	–
16 June 2017	410,000	1,529	16 June 2019	–	(60,000)	350,000
16 June 2017	410,000	1,529	16 June 2020	–	(60,000)	350,000
16 June 2017	410,000	1,529	16 June 2021	–	(60,000)	350,000
16 June 2017	205,000	765	16 June 2022	–	(30,000)	175,000
	2,050,000	7,647		(525,000)	(300,000)	1,225,000

32. RESERVES

Surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the companies now comprising the Group which are registered in the PRC shall appropriate a certain percentage of their net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. When the balance of this reserve fund reaches 50% of the entities' capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages. After making the appropriation to the statutory surplus reserve, the Company may also appropriate its profit for the year to the discretionary surplus reserve upon approval by the Board or the shareholders in general meetings.

Capital reserve

Capital reserve represented additional contributions made by the shareholders of the Company's subsidiaries and, in the case of an acquisition of an additional non-controlling interest of a subsidiary, the difference between the cost of acquisition and the non-controlling interest acquired.

Merger reserve

The merger reserve represented the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired and the Company's cost of acquisition of the subsidiaries under common control upon the reorganisation undergone by the Group.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the harvested raw Chinese herbs of HK$14,380,000 were transferred to inventories (2017: HK$2,889,000).

(b) Changes in liabilities arising from financing activities:

	Loans from a director HK$'000	Bank loan and other borrowings HK$'000
At 1 January 2018	–	**548,021**
Changes from net financing cash flows	**30,000**	**(34,690)**
Foreign exchange movement	–	**5,146**
At 31 December 2018	**30,000**	**518,477**

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

34. 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 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	29,270	29,861
In the second to fifth years, inclusive	35,440	30,311
After five years	11,545	7,838
	76,255	68,010

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Land and buildings	30,119	41,557
Plant and machinery	20,478	5,943
	50,597	47,500

36. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

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

Name of related parties	Relationship
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Director of the Company
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Director of the Company
Edtoma Corporate Services Limited	Company significantly influenced by Mr. Eddie Chan
CWCC Consultancy 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 parties following the Group's acquisition of 100% of their interests on 19 April 2017.

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

	Notes	2018 HK$'000	2017 HK$'000
Loans from a director	(i)	50,000	–
Repayment of a loan from a director	(i)	20,000	–
Interest expense to a director	(i)	1,040	–
Purchase of raw materials	(ii)	–	462
Professional service fees	(iii)	474	612
Acquisition of subsidiaries	(iv)	–	193,885
		71,514	194,959

36. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

Notes:

(i) On 14 March 2018, the Group entered into a loan agreement with Mr. Abraham Chan, in which Mr. Abraham Chan agreed to make loan facility up to HK$50 million to the Group for financing the general corporate funding requirements. During the year ended 31 December 2018, the Group draw down HK$50 million and repaid HK$20 million for such facility. The interest expense in relation to the aforesaid loans was at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to loans offered by the banks to the Group.

(ii) The purchase of raw materials was made from Gold Sparkle DZ, under prices mutually agreed by both parties. The Directors consider that the purchases of raw materials were made according to the prices and conditions similar to those offered to the other suppliers of the Group. Following the Group's acquisition of 100% equity interest in Gold Sparkle DZ on 19 April 2017, Gold Sparkle DZ became a wholly-owned subsidiary of the Group and the transaction after the acquisition is not related party transaction.

(iii) The professional service fees were paid to Edtoma and CWCC, over which Mr. Eddie Chan has significant influence, under prices mutually agreed by both parties. The Directors consider that the service charges offered by the suppliers were in line with its other suppliers.

(iv) On 19 April 2017, the Group acquired Gold Sparkle DZ and Gold Sparkle HZ from a related company of which the ultimate shareholder was Mr. Abraham Chan, at a consideration of HK$193,885,000, based on arm's length negotiation in reference to the appraised value determined by an independent third party valuer.

(c) Outstanding balance with a related party:

	2018		2017	
		Maximum amount outstanding		Maximum amount outstanding
	HK$'000	HK$'000	HK$'000	HK$'000
Loans from a director:				
Mr. Abraham Chan	30,000	50,000	–	–

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

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

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	3,677	7,846
Equity-settled share option expense	1,118	925
Pension scheme contributions	54	57
	4,849	8,828

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	10,741	–	10,741
Trade and bills receivables	–	290,657	290,657
Financial assets included in prepayments, other receivables and other assets	–	32,173	32,173
Pledged bank deposits	–	9,000	9,000
Cash and cash equivalents	–	104,884	104,884
	10,741	436,714	447,455

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	139,201
Financial liabilities included in other payables and accruals	45,054
Interest-bearing bank borrowings and other borrowings	518,477
Loans from a director	30,000
	732,732

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

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

38. TRANSFERS OF FINANCIAL ASSETS

At 31 December 2018, 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$16,031,161 (2017: HK$6,189,454). The Derecognised Bills had a remaining maturity of approximately one to eleven 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.

39. 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, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of non-current interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

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

The fair value of the Group's financial asset at fair value through profit or loss, which was previously classified as an available-for-sale investment, is categorised within Level 3 of the fair value hierarchy which is measured based on significant unobservable inputs and has been estimated based on the surrender value of the policy as disclosed in note 16 to the financial statements. The fair value of the insurance policy is mainly affected by its surrender value as the directors expected the other unobservable inputs such as insurance risk would not have significant impact on the fair value of the insurance policy. The surrender value of the insurance policy was obtained from the insurance company without any adjustment. The directors believe that the estimated fair value and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of the 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 2018.

40. 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

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

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

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

	2018 HK$'000	2017 HK$'000
If decrease by 100 basis points	4,240	6,202
If increase by 100 basis points	(4,240)	(6,202)

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 2018 and 2017 to a reasonably possible change by 5% in the HK$ exchange rates against RMB and Japanese Yen ("JPY"), with all other variables held constant, of the Group's profit before tax due to changes in the fair values of monetary assets and liabilities.

	2018 HK$'000	2017 HK$'000
If RMB weakens against HK$ by 5%		
Decrease in profit before tax	4,953	2,420
If RMB strengthens against HK$ by 5%		
Increase in profit before tax	(4,953)	(2,420)
If JPY weakens against HK$ by 5%		
Decrease in profit before tax	(268)	(236)
If JPY strengthens against HK$ by 5%		
Increase in profit before tax	268	236

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables*	–	–	–	290,657	290,657
Financial assets included in prepayments, other receivables and other assets					
— Normal**	32,173	–	–	–	32,173
Pledged deposits					
— Not yet past due	9,000	–	–	–	9,000
Cash and cash equivalents					
— Not yet past due	104,884	–	–	–	104,884

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure as at 31 December 2017

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

As at 31 December 2017, the Group had certain concentrations of credit risk as 61% of the trade receivables were due from the Group's five customers. In order to minimise the credit risk, the financial department 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 receivable balances so as to ensure that the Group will not be subject to material bad debt risk. Since the Group only trades with third parties recognised to be creditworthy, management considers that the credit risk in respect of the Group's customers is limited. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. 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:

	2018					
	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
Trade and bills payables	–	61,053	78,148	–	–	139,201
Other payables	–	45,054	–	–	–	45,054
Interest-bearing bank and other borrowings	206,025	61,364	101,309	181,128	1,769	551,595
Loans from a director	30,000	–	–	–	–	30,000
	236,025	167,471	179,457	181,128	1,769	765,850

	2017					
	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
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

Note: As at 31 December 2018, interest-bearing bank borrowings in the amount of HK$206,025,000 (2017: HK$370,443,000) 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".

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 2018 and 2017 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
2018	171,059	90,679	107,663	181,128	1,769	552,298
2017	217,431	108,933	176,680	69,555	2,125	574,724

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2018.

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, loans from a director, 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:

	2018 HK$'000	2017 HK$'000
Interest-bearing bank and other borrowings	518,477	548,021
Loans from a director	30,000	–
Trade and bills payables	139,201	112,195
Other payables and accruals	71,426	69,831
Less: Cash and cash equivalents	(104,884)	(86,805)
Net debt	654,220	643,242
Equity attributable to owners of the parent	562,219	549,082
Net debt and equity attributable to owners of the parent	1,216,439	1,192,324
Gearing ratio	54%	54%

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:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	–	–
Total non-current assets	–	–
CURRENT ASSETS		
Prepayments, deposits and other receivables	392,174	397,259
Cash and cash equivalents	94	278
Total current assets	392,268	397,537
CURRENT LIABILITIES		
Other payables and accruals	787	839
NET CURRENT ASSETS	391,481	396,698
TOTAL ASSETS LESS CURRENT LIABILITIES	391,481	396,698
EQUITY (note)		
Share capital	191,981	191,981
Shares held for share award scheme	(8,200)	(10,019)
Reserves	207,700	214,736
Total equity	391,481	396,698

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 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 and at 1 January 2018	191,981	206,672	(10,019)	2,226	5,838	396,698
Loss for the year	–	–	–	–	(7,331)	(7,331)
Recognition of equity-settled share award	–	–	–	2,725	–	2,725
Forfeiting of Award Shares granted under Share Award Scheme	–	–	–	(611)	–	(611)
Transfer of vested share under Share Award Scheme	–	139	1,819	(1,958)	–	–
At 31 December 2018	191,981	206,811*	(8,200)	2,382*	(1,493)*	391,481

* These reserve accounts comprised the reserves of HK$207,700,000 (2017: HK$214,736,000) 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 27 March 2019.

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				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**745,503**	591,566	535,986	473,900	366,352
Cost of sales	**(290,603)**	(195,708)	(187,182)	(168,168)	(134,241)
Gross profit	**454,900**	395,858	348,804	305,732	232,111
Other income and gains	**49,615**	31,162	10,796	8,212	5,794
Selling and distribution expenses	**(229,995)**	(191,753)	(154,380)	(140,214)	(99,176)
Administrative expenses	**(217,026)**	(206,987)	(154,001)	(119,376)	(81,028)
Other expenses	**(9,084)**	(1,082)	(3,221)	(3,977)	(2,307)
Finance costs	**(21,879)**	(16,867)	(9,331)	(10,243)	(13,064)
PROFIT BEFORE TAX	**26,531**	10,331	38,667	40,134	42,330
Tax	**(5,725)**	(8,442)	(6,505)	(11,676)	(7,823)
PROFIT FOR THE YEAR	**20,806**	1,889	32,162	28,458	34,507
Attributable to:					
Owners of the parent	**20,806**	1,889	32,162	28,458	34,463
Non-controlling interests	**–**	–	–	–	44
	20,806	1,889	32,162	28,458	34,507

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	1,333,103	1,293,977	860,248	697,332	420,310
TOTAL LIABILITIES	(770,884)	(744,895)	(405,743)	(227,622)	(284,497)
NON-CONTROLLING INTERESTS	–	–	–	–	(124)
	562,219	549,082	454,505	469,710	135,689

Note:

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

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