PuraPharm

ANNUAL REPORT 2019 年度報告

PuraPharm Corporation Limited
培力控股有限公司
Stock code 股票代號：1498

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chan Yu Ling, Abraham *(Chairman)*
Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)*
Mr. Chan Kin Man, Eddie
Ms. Man Yee Wai, Viola

NON-EXECUTIVE DIRECTOR

Mr. Chow, Stanley
Mr. Cheong Shin Keong
(appointed on 24 March 2020)

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
(resigned on 27 March 2019)
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee (appointed on 27 March 2019)

REMUNERATION COMMITTEE

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

SCIENTIFIC ADVISORY COMMITTEE

Prof. Rudolf Bauer
Prof. Piu Chan
Prof. Liang Song Ming
Mr. Lin Jinn Sin
Prof. Bruce Robinson

COMPANY SECRETARY

Mr. Lau Ka Kuen

AUTHORISED REPRESENTATIVES

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

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


NONG'S
農本方
2017
200g
中藥配方顆粒
銀翹散

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

From left to right: Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon, Mr. Chow, Stanley, Mr. Chan Yu Ling, Abraham, Mr. Chan Kin Man, Eddie, Ms. Man Yee Wai, Viola, Prof. Tsui Lap Chee, Dr. Tsoi Kam Biu, Alvin

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 59, 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 63, 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 59, is 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 CPA Limited, 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 54, 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 was a member of the Council of the Education University of Hong Kong (2013-2019) and was a member of the Betting and Lotteries Commission (2013-2019). She is a member of the HK Basic Law Promotion Steering Committee 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 56, is a Non-executive Director. Mr. Chow has over 21 years of experience as a corporate lawyer in Hong Kong and Canada. From May 1995 to October 1996, Mr. Chow served as a senior manager in the Listing Division of The Stock Exchange of Hong Kong Limited. Mr. Chow joined Allen & Overy, an international law firm, as an associate in November 1996 and served as a partner in its Hong Kong office from May 2000 to January 2009. Then, Mr. Chow joined the Hong Kong office of Latham & Watkins, another international law firm, where he was a partner and the local department chair of the corporate department in Hong Kong from March 2009 to February 2014 and a member of its Initiatives Committee from March 2012 to February 2014. Mr. Chow is an independent non-executive director of HKBN Ltd. (stock code: 1310). Mr. Chow graduated from Queen's University, Canada with a Bachelor of Commerce (Honours) Degree in May 1986 and obtained a Juris Doctor with Honour Standing from the University of Toronto, Canada in June 1989. Mr. Chow was admitted as a barrister and solicitor in Ontario, Canada in 1991, and in British Columbia, Canada in 1994. He was also admitted as a solicitor in England and Wales in 1994 and in Hong Kong in 1995.

Mr. Cheong Shin Keong (鄭善強), aged 63, is a Non-executive Director. Mr. Cheong is an Independent Non-Executive Directors of Bossini International Holdings Limited (stock code: 592), a company listed on the Stock Exchange since September 2017, and from January 2015 to January 2020 was an executive director of Television Broadcasts Limited (stock code: 511), a company listed on the Main Board of the Stock Exchange. Mr. Cheong joined Television Broadcasts Limited as controller, marketing & Sales in March 1989 and assumed the duties of general manager in April 2004. Mr. Cheong has extensive experience in the advertising and marketing industry and contributes actively to the professional development of marketing in Hong Kong through leading marketing industry bodies. He is a Fellow and a Vice-Chairman of the Hong Kong Management Association as well as a Fellow and Hong Kong Regional Board President of the Chartered Institute of Marketing.

Independent Non-executive Directors

Dr. Chan Kin Keung, Eugene (陳建強), aged 56, 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 61, 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 65, is an Independent Non-executive Director. Dr. Leung has more than 30 years of extensive experience in both the information technology and telecommunications industries. Dr. Leung is currently a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business, University of Western Ontario, where he is primarily responsible for advising the school on its mission and strategy in Asia. He is also currently a member of the College Council of Tung Wah College, where he is primarily responsible for determining key governance issues. In 2005, he was appointed as the president of Motorola Asia-Pacific. Since 2008, Dr. Leung has been the Chief Executive Officer of Microsoft Greater China region. From 2009 to 2010, he was the Governor of the Upper Canada College. In 2012, Dr. Leung was appointed as Chief Executive Officer of Harrow International Management Services Limited. Since March 2015, Dr. Leung is appointed as the vice chairman and executive director of NetDragon Websoft Holdings Limited (stock code: 777) and the Chairman of its subsidiaries including Promethean World Limited, Edmodo, Inc., Cherrypicks and Jumpshot Games, Inc., responsible for the overall strategic layout, direction of technical products and international business operation of all the education-related business of the company. From 2010 to 2015, Dr. Leung was a member of the International Advisory Committee of The Hong Kong Polytechnic University. Dr. Leung received his bachelor's degree in arts from the University of Western Ontario in Canada, an honorary doctorate in laws from the University of Western Ontario in Canada and a doctorate degree of business administration from the Hong Kong Polytechnic University.

Prof. Tsui Lap Chee (徐立之), aged 69, 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. 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. 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 54, 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 52, 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 38, 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.

Dr. Norimoto Hisayoshi (範本文哲), aged 50, is the Chief R&D Officer cum General Manager, PuraPharm Japan Corporation, and Vice President of Production and Operation in China. 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.

Ms. Ruan Qiong (阮瓊), aged 42, is the General Manager of China Sales & Marketing. She is responsible for the Group's sales and marketing in China market. Ms. Ruan joined the Group in January 2019 as General Manager of China Sales and Marketing. Prior to joining the Group, from 2009 to 2018, Ms. Ruan worked for Eli Lilly Pharmaceutical Company as a Marketing Director and then a Business Unit Head where she was primarily responsible for sales & marketing of hospital, retail and e-commerce channel; from 2001 to 2008, Ms. Ruan worked for Boehringer Ingelheim Pharmaceutical Company as a sales associate, and then a trade marketing manager for consumer health care division. She received a bachelor's degree from the University of Shanghai for Science and Technology and Certificate from City University of New York in 2001.

Mr. Shi Gang (石鋼), aged 64, is the Vice President of Greater China. Mr. Shi joined our Group as the Chief representative of the Beijing representative office and Vice President of the Greater China region in October 2004. He is mainly responsible for liaising with government departments in the PRC with respect to our Group's operation, liaising with the China Food and Drug Administration at the provincial level, obtaining sales approval and monitoring the relevant policies and regulations in the PRC. Prior to joining our Group, Mr. Shi was appointed as the Chief representative of Ryoden (Holdings) Limited (菱電(集團)有限公司) in 1992, a company principally engaged in the elevator business, where he was primarily responsible for human resources and operational management of the Beijing representative office, as well as liaising with government departments and leaders in Beijing on behalf of the board of directors of Ryoden (Holdings) Limited (菱電(集團)有限公司). Mr. Shi was accredited as an electrical engineer in the PRC by The Ministry of Science and Technology of the PRC (中華人民共和國國家科學技術委員會) in November 1994. Mr. Shi received his Bachelor's Degree in journalism from Beijing Renwen University (北京人文大學) (formerly known as Beijing Renwen Hanshou University (北京人文函授大學)) in May 1987. He completed the Beijing Foreign Investment Enterprise senior management training course (北京市外商投資企業中方高級管理人員培訓班) and the Beijing Foreign Investment Enterprise personnel management training course (北京外商投資企業人事管理培訓) organised by the Beijing Personnel Bureau (北京市人事局) in December 1994 and November 1994, respectively.

CORPORATE MILESTONES

農本方
NONG'S
PuraPharm
獨活寄生湯
濃縮中藥膠囊
Concentrated Chinese Medicine Capsules
農本方
NONG'S
PuraPharm
參苓白朮散
濃縮中藥膠囊
Concentrated Chinese Medicine Capsules

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 (黃芪) Formula Granules was verified by the USP Dietary Ingredient Verification Program

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

2015

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

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

2016

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

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

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

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

2017

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

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

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

2018

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

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

2019

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

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

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

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

CHAIRMAN'S STATEMENT


NONG'S
農本方

CHAIRMAN'S STATEMENT

2019 was a difficult year for Purapharm. With the structural revamp of our business strategy in China, we have seen progressive improvement of our overall margin and performances in China at the second half of 2019. We have successfully raised the prices of our CCMG products and secured a higher trade margin with our distributors in China. However, the unprecedented social unrest in Hong Kong for the second half of 2019 has affected our overall businesses in Hong Kong. Since Hong Kong represents a substantial volume of our business, as a result, the overall performance fell short of what we have expected for 2019.

The Group reported a revenue of HK$695.9 million, down from HK$745.5 million of last year and representing a 6.7% decrease.

The revamp in the pricing strategy of our CCMG business in China carried out in the first half of 2019 has resulted in a temporary loss of sales. However, the business has since regained its momentum in the second half of the year, but the overall sales were still lower than last year despite an improvement in margin.

Due to the poor retail sentiment in Hong Kong because of the intensified social unrest over the second half of the year, the Group's CCMG and healthcare products business in Hong Kong were negatively affected.

The Group reported an attributable loss of HK$223.3 million for 2019. This compares with a HK$20.8 million profit in 2018.

Since the outbreak of the social unrest in June, the number of patients visits to Chinese medicine clinics in Hong Kong had reduced. This has affected not only our own clinics business but those of our customers' clinics as well. The 2019 sales of CCMG products in Hong Kong was HK$161.6 million, representing a decrease of HK$10.2 million or 5.9% compared to HK$171.8 million in 2018.

The revenue of the Group's self-operated clinic business decreased in the second half as compared to the first half of 2019. Having considered extremely difficult operating environment in Hong Kong and China, the Group decided to make a one-off and non-cash impairment of HK$39.6 million for those non-performing clinics in Hong Kong and China.

We will continue to monitor and review the market condition and take appropriate actions to achieve the profitability of the clinic business as early as possible.

The poor retail sentiment in Hong Kong also affected our sales of Chinese healthcare products. We have launched an aggressive on-line campaign for our flu and cough products towards the end of 2019 and have obtained good results. Despite additional promotional campaign, the healthcare products revenue in 2019 was HK$90.4 million, a decrease of 8.7% compared to 2018.

Our Plantation business contributed HK$62.2 million to the Group's overall revenue, an increase of 14.8% or HK$8.0 million over 2018. The increase was mainly attributed to the sales of seed and seedling business and the trading of raw Chinese medicine herbs.

We expect the competition of Chinese medicine and its associated raw ingredients in Guizhou business segment will be more keen and the trading margin will be affected. The management, therefore, decided to make a provision for impairment of goodwill of HK$67.3 million for the plantation business as at 31 December 2019 according to a newly projected cash flow.

PROSPECTS

The outbreak of the Novel Coronavirus (COVID-19) Pneumonia (the "Pandemic") has grown into a large-scale, multi-country pandemic during the first quarter of 2020, producing a challenging situation for all industries and society generally. In February 2020, PuraPharm (Nanning) Pharmaceuticals Co. Limited, a wholly owned subsidiary of the Group was authorised by Guangxi Zhuang Autonomous Region Food and Drug Administration ("GXFDA") of the People's Republic of China (the "PRC") through the contingency application procedure prepare and manufacture the Qing Fei Pai Du Tang (清肺排毒湯), Kang Fu Yi Hao Fang (康復1號方) and Qi Wei Tang (七味湯) granule for Ruikang Hospital Affiliated to Guangxi University of Chinese Medicine. In response to the Pandemic, the Group will closely monitor the situation and actively seek opportunities to cope with the challenges.

In Hong Kong, the local economy continues to be affected by potential continuation of social and political unrest since the second half of 2019. The outbreak of the Pandemic is expected to worsen the economic outlook. The Pandemic is negatively impacting consumer sentiment and affecting the demand for Chinese medicine services by the patients, the Group expects the impact of the Pandemic to the Group's clinic and CCMG business in Hong Kong will continue for a prolonged period in 2020. The Group will continue to monitor the performance of the individual clinic and downsize the clinic network by closing those loss-making clinics. In addition, the Group will continue to review the market condition and proactively negotiate with the landlords on rental reduction in order to achieve clinic profitability as early as possible.

Due to the difficult retail market and sluggish consumption sentiment, the retail sales of the Group's Chinese healthcare products were affected in 2019. However, we believe that the current Pandemic has rendered people to become increasingly health conscious. The demand and quest for quality health products will certainly increase worldwide. We are proactively developing new and innovative healthcare products to enrich our product portfolio, and we will devote more focus to market the Group's healthcare products through online platform in order to counteract the weakened retail market.

For 2020, the Group anticipates that volatility and uncertainty will continue to undermine global economic growth. We will endeavour to achieve sustainability and stability of our business so as to secure the best interests of our Shareholders and continue to be the pioneer in modernising Chinese Medicine through our innovation and conviction.

APPRECIATION

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, 24 March 2020

CORPORATE PROFILE

CORPORATE PROFILE

The Group is a leading Hong Kong-based Chinese medicine company primarily engaged in the research and development, production, marketing and sale of CCMG products marketed under its brand "Nong's® (農本方®)". The Group is one of the only five, and the only non-PRC company that is licensed by the CFDA to manufacture and sell CCMG products in China. Further, the Group is qualified to issue safety reports recognised by more than 70 countries around the world through its in-house CNAS ISO 17025 laboratory. The Group has been supplying CCMG to the majority of Hong Kong hospitals and healthcare institutions with TCM clinics since 2004. The Group is the leading and the largest supplier of CCMG products in Hong Kong and also 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, the Australia's TGA standards, one of the strictest certification standards in the world, as well as the international PIC/S GMP standards. The Group is also the only Chinese medicine manufacturer to have CCMG products verified and recognized by the United States Pharmacopeia (USP). The Group's laboratory is certified by the CNAS, the international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards. The Group's manufacturing facilities are regarded as one of the most advanced TCM research and manufacturing facilities in Asia."

International Organization for Standardization ISO 17025 ACCREDITED LABORATORY

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

CORPORATE STRENGTHS

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

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

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

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

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 international PIC/S, the USP, as well as the Group's internal standard operating procedures. It is recognised as one of the most sophisticated, well-managed Chinese medicine research and manufacturing plants in Asia.

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

PILOT FACTORY AT JAPAN

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

PRODUCTS AND SERVICES OVERVIEW


NONG'S
農本方

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.

OTC PRODUCTS

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

In 2019, PuraPharm introduced a new look, and a more convenient and consumer-friendly packaging design, to its bestselling range of Nong's OTC Formula products. The newly designed packaging ensures production efficiency and provides a trendy and more handy pack for consumers. The Group also launched a new range of ten Nong's OTC Chinese Medicine Capsules products, targeted for consumers' general relief, overall health and well-being.

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

NONG'S CLINICS

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

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

The Group's characteristics:

1. High-quality Chinese Medical Service

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

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

2. Tailor-made Health-keeping Service

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

3. Scientific management, human-based service

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

- All medical records are computerised for easy retrieval.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	Year ended 31 December					
	2019 HK$000	% of total	2018 HK$000	% of total	Change HK$000	%
Revenue						
— China CCMG	285,220	41.0%	324,611	43.5%	(39,391)	-12.1
— Hong Kong CCMG	161,573	23.2%	171,772	23.0%	(10,199)	-5.9
— Chinese healthcare products	90,429	13.0%	99,024	13.3%	(8,595)	-8.7
— Nong's ® (農本方®) Chinese medicine clinics	96,413	13.9%	95,870	12.9%	543	0.6
— Plantation	62,244	8.9%	54,226	7.3%	8,018	14.8
	695,879	100.0%	745,503	100.0%	(49,624)	-6.7
Gross profit	398,839		454,900		(56,061)	-12.3
Net (loss)/profit for the year	(227,258)		20,806			

In addition to our consolidated financial statements which are presented in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the Group also provide further information based on the adjusted net loss for the year as an additional financial measure. This measure does not represent and should not be used as a substitute for, gross profit or loss for the year as determined in accordance with HKFRSs. In addition, the Group's definition of adjusted net loss may not be comparable to other similarly titled measures used by other companies.

The Group presented further information on its adjusted net loss because the Group believes such figures present a more meaningful picture of its financial performance than unadjusted numbers as they exclude impact from significant non-cash or non-recurring items.

The adjusted net loss was arrived at by reconciling non-cash or non-recurring items from net loss as set out below:

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Net (loss)/profit for the year	(227,258)	20,806
Add:		
Impairment loss of goodwill recognised for Plantation CGU	67,346	—
Impairment loss of clinics' assets	39,615	—
Loss on disposal of clinics	3,149	2,250
Fair value loss/(gain) on biological assets, net	19,642	(26,553)
Write-off of deferred tax assets	8,695	—
Fair value loss on investment properties	1,452	—
Fair value loss on financial assets of fair value through profit or loss	1,546	—
Adjusted net loss for the year	(85,813)	(3,497)

The Group's revenue for the year ended 31 December 2019 was HK$695.9 million, representing a decrease of HK$49.6 million or 6.7% compared to HK$745.5 million in last year. The revenue drop was mainly attributable to the following factors:

(i) The structural revamp in pricing and strategy of the China CCMG business carried out in the beginning of 2019 have resulted in losing some of the unprofitable distributors and caused a temporary loss of sales. The performance of the Group's China CCMG business has improved in the second half of 2019 with sales increment by HK$17.3 million or 12.9% comparing to first half of 2019, but the annual sales was lower than last year; and

(ii) Hong Kong experienced prolonged and large scale social unrest in the second half of 2019, which led to difficult retail market and sluggish consumption sentiment, in turns affecting the Group's CCMG and Chinese healthcare products business in Hong Kong.

The Group's loss for the year ended 31 December 2019 was HK$227.3 million as compared to the profit of HK$20.8 million in last year. The substantial loss was primarily attributable to the following reasons:

(i) The Hong Kong retail market weakened since June onward due to the outbreak of social incidents. The ongoing social inability in Hong Kong affected the Group's clinic business segment as the number of patients visit to the Group's clinics substantially reduced. As a result, the Group's clinic business segment recorded a substantial loss for the year ended 31 December 2019;

(ii) The Group's Chinese healthcare products business in Hong Kong experienced a decline of sales and profitability due to the difficult retail market and sluggish consumption sentiment;

(iii) The sales drop from the Group's China CCMG business segment resulted from the revamped sales and pricing strategy in the first half of 2019; and

(iv) Due to the keen price competition and increase in plantation cost, the fair value of the Group's biological assets in Plantation segment experienced a net loss of HK$19.6 million for the year ended 31 December 2019, while there was a fair value gain of HK$26.6 million for the year ended 31 December 2018.

In addition to above financial performance of the relevant business segments of the Group, the substantial net loss for the year ended 31 December 2019 was also attributable to following one-off and non-cash items:

(a) Having considered the extremely difficult operating environment in Hong Kong in the second half of 2019 due to the ongoing social unrest, the Group has made an one-off impairment loss of HK$39.6 million in respect of property, plant and equipment and right-of-use assets for those non-performing clinics in Hong Kong and China.

(b) The value-in-use ("VIU") method of discounted cash flow projection covering a period of 5 to 8 years (the "Budget Period"), was adopted for the calculation of the recoverable amount of the Plantation CGU.

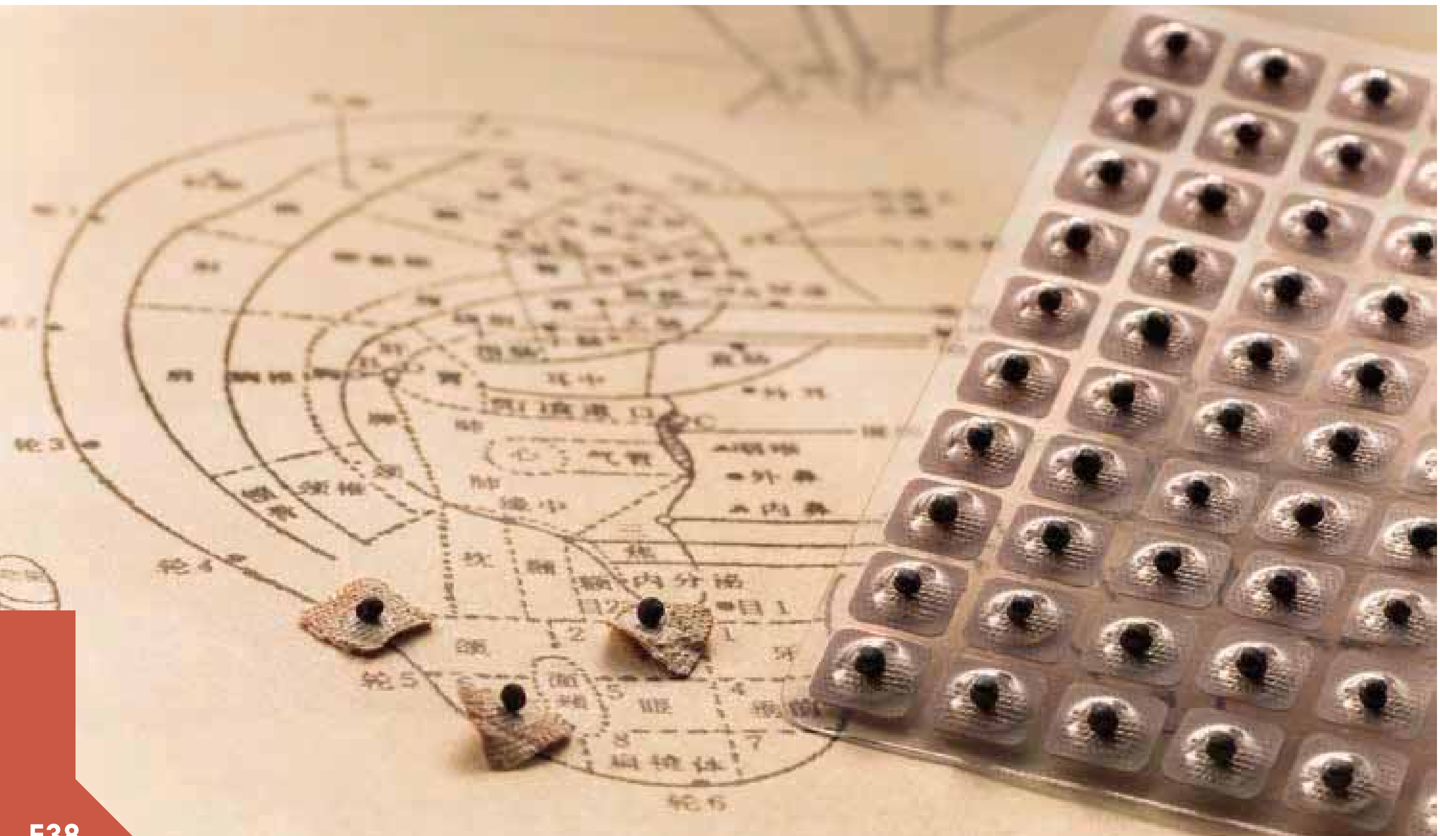
    There were no significant changes in the growth rate to extrapolate cash flows beyond the Budget Period and pre-tax discount rate in the preparation of the cash flow projections of Plantation CGU as at 31 December 2019 as compared with those adopted as at 31 December 2018, except for below changes in estimations during the year 2019 considering the current market condition and the Group's most recent business plans:

    1. the estimations regarding the compound annual growth rate within the Budget Period was decreased since the management of the Group expected that the revenue growth for TCM decoction piece and Chinese raw herb products would slow down by taking into account recent keen market competitions along with the ongoing de-concentration in this industry and declining trend in the market prices of Chinese raw herbs products; and

    2. the estimations regarding the budget gross profit margin was decreased as the Group would incur additional cost in the Budget Period to enrich its product portfolio (including seedling products) and implement more flexible pricing policies so as to stay competitive.

    Therefore, the management of the Group made provision for impairment of goodwill of HK$67,346,000 as at 31 December 2019 according to the revised the projected cash flows in the Plantation CGU.

(c) Due to the deteriorating retail market in Hong Kong, the Group has further made a write-off of deferred tax assets of HK$8.7 million, in which HK$7.8 million was in respect of the tax losses arising from the Group's clinic and Chinese healthcare products business in Hong Kong.



CHINA CCMG

For the year ended 31 December 2019, the sales of CCMG products in China was HK$285.2 million, representing a decrease of HK$39.4 million or 12.1% compared to HK$324.6 million in last year. The decrease was mainly attributed to the decrease in sales quantity, especially the distributorship sales.

The China CCMG business continued to be challenging with keen price competition. The drop in sales in the China CCMG business for the year ended 31 December 2019 was due to a structural revamp of the business strategy in China. Since the beginning of 2019, the Group has raised the prices of its CCMG products in China and have successfully negotiated a higher trade margin with certain of its distributors. The adjustments have also delineated some unprofitable distributors and have resulted in a temporary loss of sales. However, the structural revamp in pricing and business strategy is considered a necessary and fundamental move to improve the overall margin of the Group's CCMG business in China in the long term. The revamped sales and pricing strategy of the Group's CCMG business will continue and is on track to further improve the sales and profitability of the China CCMG segment.

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 2019, the direct sales of CCMG products in Hong Kong was HK$161.6 million, representing a decrease of HK$10.2 million or 5.9% compared to HK$171.8 million in last year. The supply contract with Hong Kong Hospital Authority ("HKHA") expired in March 2018. The decline in sales to HKHA was partially offset by the increase in sales to private Chinese medicine practitioners. The Group's sales to private Chinese medicine practitioners accounted for more than 50% of the Group's HK CCMG segment revenue. However, the social unrest in Hong Kong in the second half of 2019 affected the overall business environment for the HK CCMG market, number of patients visiting clinics or hospitals of the Group's customers decreased. The Group remained as a CCMG supplier to the major non-profit organisations in Hong Kong, and continued to expand its customer base in the private Chinese medicine practitioners sector.

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

During the year ended 31 December 2019, 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$96.4 million in aggregate, representing an increase of HK$0.5 million or 0.6% compared to HK$95.9 million in last year.

Due to the ongoing social instability in Hong Kong in the second half of 2019, the revenue of the Group's clinic business segment was decreased in the second half as compared to the first half of 2019. Having considered the extremely difficult operating environment in Hong Kong, the Group has made a one-off and non-cash impairment loss of HK$39.6 million in respect of the property, plant and equipment and right-of-use assets for those non-performing clinics in Hong Kong and China. The Group will continue to monitor the performance of the respective clinics and downsize the clinic network by closing the loss-making clinics. In addition, the Group will continue to review the market condition and proactively negotiate with landlords on rental reduction in order to achieve clinic profitability as early as possible.

As at 31 December 2019, the Group maintained 57 clinics in operation in Hong Kong, and one clinic in Nanning, Guangxi Zhuang Autonomous Region.

CHINESE HEALTHCARE PRODUCTS

Sales by regions

	Year ended 31 December					
	2019		2018			
	Revenue HK$000	**% of total**	Revenue HK$000	% of total	Change HK$000	%
U.S.	**36,092**	**39.9%**	38,155	38.5%	(2,063)	-5.4
Japan	**10,447**	**11.6%**	9,794	9.9%	653	6.7
Hong Kong	**43,890**	**48.5%**	51,075	51.6%	(7,185)	-14.1
	90,429	**100.0%**	99,024	100.0%	(8,595)	-8.7

During the year ended 31 December 2019, the revenue from sales of Chinese healthcare products was HK$90.4 million, representing a decrease of HK$8.6 million or 8.7% compared to HK$99.0 million in last year. The sales decrease was mainly attributable to the decrease in sales in Hong Kong segment of HK$7.2 million or 14.1%. The social unrest in Hong Kong starting from June 2019 affected the retail market in Hong Kong, and our sales of Chinese healthcare products in Hong Kong was also affected, leading to the overall sales decrease in our Chinese healthcare products.

PLANTATION

For the year ended 31 December 2019, the upstream plantation segment contributed HK$62.2 million to the Group's overall revenue, higher than the corresponding period in last year of HK$54.2 million by HK$8.0 million or 14.8%. 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 due to the increase in quantity sold. However, due to declining trend of market prices of raw Chinese herbs resulted from the keen market competitions and increased plantation costs, the sales volume and profit margin for the plantation segment were lower than the Group's anticipation.

Profitability

	Year ended 31 December		
	2019 HK$000	2018 HK$000	Change %
Revenue	695,879	745,503	(6.7)
Cost of sales	297,040	290,603	2.2
Gross Profit	398,839	454,900	(12.3)
Gross profit margin	57.3%	61.0%	

The Group's gross profit margin for the year ended 31 December 2019 was 57.3%, representing a decrease of 3.7% compared to 61.0% in last year. The average selling price of CCMG and Chinese healthcare products remained stable during the period. The decrease in gross profit margin was mainly attributable to (i) increase in the cost of sales resulted from the high unit cost inventories balances brought forward from 2018 and (ii) decrease in gross profit margin from the 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, and interest income. For the year ended 31 December 2019, the Group's other income and gain was HK$17.5 million, representing a decrease of HK$32.1 million or 64.7% compared to HK$49.6 million in last year. The decrease was mainly due to (i) the fair value gain on biological assets of HK$26.6 million related to the plantation segment in last year turned into HK$19.6 million fair value loss in the year ended 31 December 2019 and (ii) decrease in gain from government grant recognised during 2019.

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 2019, the Group's selling and distribution expenses was HK$226.2 million, representing a decrease of HK$3.8 million or 1.7% compared to HK$230.0 million in last year.

The selling and distribution expenses as a percentage to revenue increased from 30.9% in last year to 32.5% for the year ended 31 December 2019, due to the decrease in revenue but the selling and distribution expenses remained stable. Despite the Group's China CCMG sales declined in the first half of 2019, the Group sales and marketing remained stable in last year. The Group continued to devote more marketing resources in China to increase the brand awareness and competitiveness of its CCMG products in China market.

ADMINISTRATIVE EXPENSES

	Year ended 31 December			
	2019	2018	Change	
	HK$000	HK$000	HK$'000	%
Clinics operating expenses	**81,375**	80,836	539	0.7
Research and development costs	**34,733**	26,367	8,366	31.7
General administrative expenses	**112,374**	109,823	2,551	2.3
Total administrative expenses	**228,482**	217,026	11,456	5.3

The Group's administrative expenses included 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 2019, the Group's administrative expenses was HK$228.5 million, representing an increase of HK$11.5 million or 5.3% compared to HK$217.0 million in last year. The increase was mainly attributable to (i) increase in research and development expenses of HK$8.4 million, which was mainly due to the remaining project costs for system development to improve the operation efficiency and increase in research and development costs in plantation segment for development and improvement of the plantation technique to increase the product diversity and quality; and (ii) increase in administrative expenses in plantation segment attributing to the increase in staff costs.

OTHER EXPENSES

The Group's other expenses were mainly comprised of fair value loss on biological assets, investment properties and financial assets at fair value through profit or loss, net foreign exchange loss, loss on disposal of fixed assets and voluntary charity donation. The increase was primarily attributable to (i) net fair value loss on biological assets of HK$19.6 million, which was resulted from the anticipation of the decreasing trend of the market price of the biological assets and increased plantation costs; (ii) fair value loss on investment properties located in Nanning, Guangxi Zhuang Autonomous Region; and (iii) fair value loss on financial assets at fair value through profit or loss.

FINANCE COSTS

For the year ended 31 December 2019, the Group's finance costs amounted to HK$27.2 million, representing an increase of HK$5.3 million or 24.3% as compared to HK$21.9 million in last year. The increase was mainly due to the increase in interest expenses on lease liabilities of HK$5.5 million resulted from the adoption of HKFRS 16, no such interest expense was recorded in last year.

INCOME TAX EXPENSE

For the year ended 31 December 2019, the Group's income tax expenses amounted to HK$11.1 million, representing an increase of HK$5.4 million or 94.7% as compared to HK$5.7 million in last year. The increase in income tax expenses was due to:

(i) even the Group incurred a loss during 2019, profitable subsidiaries generated assessable tax profit for the during the year;

(ii) write-off of deferred tax assets amount of HK$8.7 million. Amount of HK$7.8 million arise from derecognised deferred tax assets in respect of the tax losses arising from the Group's clinic and Chinese healthcare products business in Hong Kong.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the business plan disclosed in this annual report, the Group did not have any future plans for material investments or capital assets as at 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

Cash position and interest-bearing bank and other borrowings

As at 31 December 2019, the Group had net current liabilities of HK$41.4 million (31 December 2018: net current assets of HK$131.5 million), of which HK$28.0 million current liability resulted from adoption of HKFRS 16, no such current liability was recorded in last year. The Group's net current liabilities also included cash and cash equivalent of HK$68.0 million (31 December 2018: HK$104.9 million) and interest-bearing bank and other borrowings amounting to HK$312.3 million (31 December 2018: HK$354.0 million) and loan from a director amounting to HK$15 million (31 December 2018: 30 million). As at 31 December 2019, the Group's total interest-bearing bank and other borrowing was HK$456.0 million (31 December 2018: HK$518.5 million), unused bank facilities including overdraft amounted to HK$80.2 million (31 December 2018: HK$39.7 million).

Cash flow and liquidity ratio analysis

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Net cash from operating activities	**131,200**	72,461
Net cash used in investing activities	**(91,461)**	(36,088)
Net cash used in financing activities	**(79,246)**	(28,024)
Current ratio	**0.9**	1.2
Gearing ratio	**1.3**	1.0

For the year ended 31 December 2019, the Group's net cash from operating activities was HK$131.2 million, which was primarily attributable to the improvement on the working capitals management, including optimising the procurement and production process, continuous efforts on inventory management and expedite the trade receivable collection, for an increment of operating cash inflow.

For the year ended 31 December 2019, the Group's net cash used in investing activities was HK$91.5 million, which was attributable to (i) payment of the remaining land use rights of the lands granted by the Guizhou Government as the TCM plantation center of the Group's subsidiary in Guizhou; (ii) payment for the construction of the TCM plantation center in Guizhou; (iii) increase in pledge of time deposit in the banks as the securities of certain bank facilities of the Group; and (iv) purchase of a financial assets at fair value through profit or loss.

For the year ended 31 December 2019, the Group's net cash used in financing activities was HK$79.2 million, which was mainly resulted from the net decrease in bank and other borrowings of HK$33.9 million and a principal portion of lease payment in the amount of HK$30.7 million.

The Group's current ratio decreased from 1.2 as at 31 December 2018 to 0.9 as at 31 December 2019, such decrease was mainly attributable to (i) the decrease in trade and bills receivables resulted from the decrease in sales and better collection during the year ended 31 December 2019; and (ii) increase in trade and bills payables granted by the banks for the settlement of the suppliers.

The Group's gearing ratio (calculated by dividing total interest-bearing bank and other borrowings, and loan from a director by total equity) increased from 1.0 as at 31 December 2018 to 1.3 as at 31 December 2019. Despite the decrease in total interest-bank and other borrowings, and loan from a director of HK$77.5 million in aggregate, the significant loss for the year ended 31 December 2019 outweighed the decrease in borrowings, and led to a significant decline in total equity. As a result, the gearing ratio increased.

In order to improve the current ratio and gearing ratio, the Group will consider to leverage on the equity financing. During the year, the Group completed the capitalisation of a loan from the controlling shareholder of HK$30 million from the outstanding principal amount of HK$45 million, by way of issuing 15,544,041 new shares at the issue price of HK$1.93 per share.

On 3 January 2020, the Group proposed a rights issue (the "Rights Issue") to raise about HK$105 million before expenses by issuing 131,630,980 Rights Shares, on the basis of one rights share for every two existing Shares at the subscription price of HK$0.80 per rights shares. The Rights Issue was completed on 2 March 2020, and 131,630,980 rights shares were allotted and issued to the shareholders. The Group's total equity was further strengthened upon the completion of the Rights Issue.

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	
	2019	2018
	HK$'000	HK$'000
Property, plant and equipment	**182,374**	169,617
Right-of-use-assets/prepaid land lease payments	**80,099**	24,916
Financial assets at fair value through profit or loss	**18,195**	10,741
Inventories	**39,113**	40,317
Trade and bills receivables	**62,727**	92,693
Pledged bank deposits	**25,115**	9,000
	407,623	347,284

CAPITAL COMMITMENT

	Year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Land and Buildings	**26,579**	30,119
Plant and machinery	**8,142**	20,478
	34,721	50,597

CONTINGENT LIABILITIES

Other than the lawsuit brought against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedlings products) the Group had no contingent liability as at 31 December 2019. Details of the lawsuit are set out in note 36 to the consolidated financial statements.

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 2019, the Group had a total of 696 employees (31 December 2018: 641 employees). During the year ended 31 December 2019, total staff costs excluding Directors' remuneration was HK$81.1 million (31 December 2018: HK$108.9 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.


農本方
NONG'S
感冒沖劑
PuraPharm
銀翹散
Flu Formula
現代化．不用煎煮的即溶中藥
Modernized Instantly Soluble Chinese Medicine
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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1 ABOUT THE REPORT

1.1 REPORTING STANDARD AND PERIOD

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

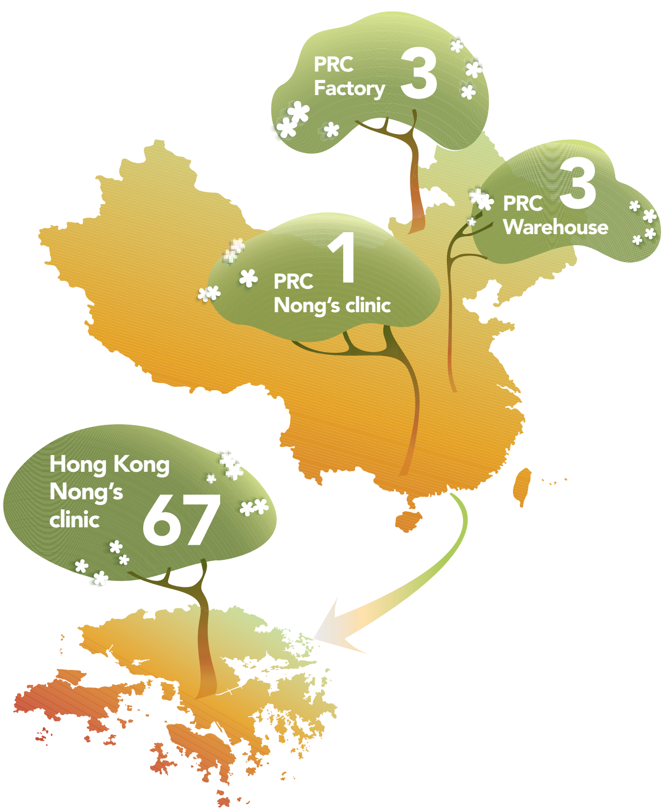
This report covered the financial reporting period from 1 January 2019 to 31 December 2019 (the "reporting period"). All ESG-related activities during the reporting period were presented in this report.

1.2 REPORTING SCOPE

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

The establishment of the Chinese medicine clinic, Nong's clinics in 2014 was to support various stakeholders' demands. The network of Nong's clinics is achieving the mission of the Group to bring longer, healthier and happier lives by providing quality pharmaceutical products and services to the community. During the reporting period, there were 67 Nong's clinics operating across Hong Kong and 1 in Guangxi.

Highlight of Purapharm's operation



2 FEEDBACK

The Group values any opinions and sees it as the drivers of improvement. If you have any comments or suggestions regarding the Report, please contact the Group via info@purapharm.com.

3 CHAIRMAN MESSAGE

Dear stakeholders,

Purapharm has been promoting traditional Chinese medicine ("TCM") and public health since its establishment in 1998. In an effort to deliver professional, quality, safe and reliable herbal products, we are dedicated to the innovation and pioneering research in the modernization of traditional medicine. In addition to the production of TCM, we adopted the concept of "farm to clinic" to provide one-stop service to our customers. We operate plantation facilities as well as Nong's Chinese medicine clinics. In order to further promote Chinese medicine, we are exploring the opportunity to grow the clinic business in China.

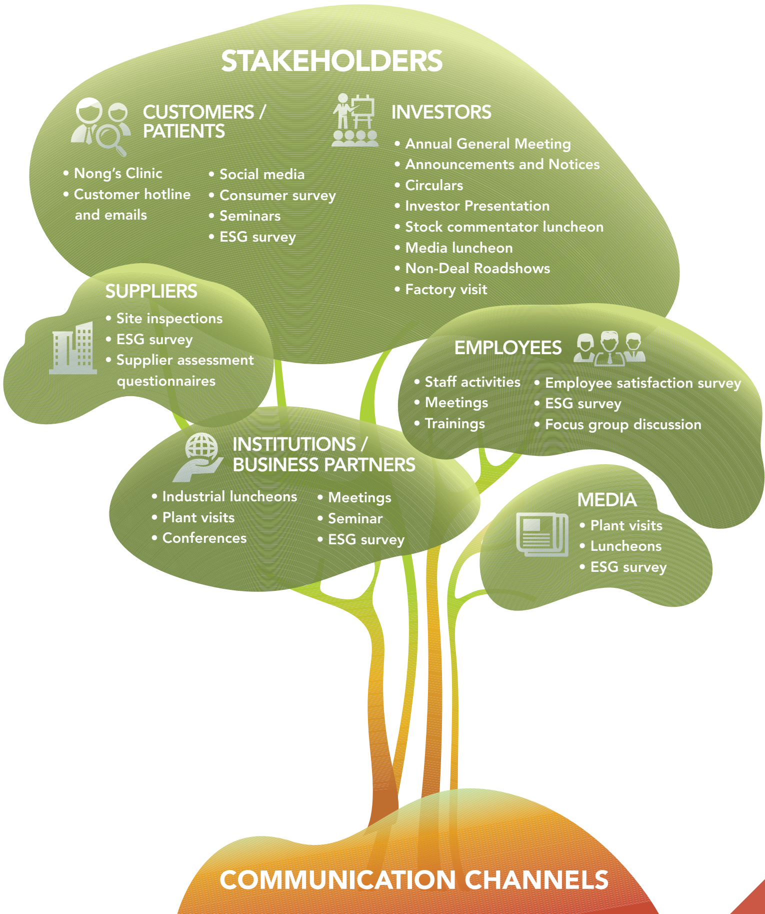
While we are engaging in the research and development, production and sale of Concentrated Chinese Medicine Granules("CCMG") products, we realized the importance of Environmental, Social and Governance ("ESG") issues to the business has been growing gradually as the plantation business and our major suppliers are highly subject to the climate change. We are committed to incorporate sustainability concepts into the decision-making process and the operation in order to reduce our environmental footprint.

This year we have engaged an independent sustainability consultant to conduct stakeholder engagement activities in order to understand the stakeholders' expectation to the Group and identify the material issue to the operation. We will focus on the identified material topics and drive towards sustainable business. In pursuance of our mission, we are pleased to present this ESG report to communicate our efforts. "Planting a sustainable future" is the theme of this year's report. The ESG report describes the sustainability highlight throughout 2019 to show how we seed sustainability from the start of our business and reinforce social well-being within our community. Last but not the least, on behalf of Purapharm, I would like to express my gratitude to our dedicated team for their endless effort towards the Group's sustainable development.

Chan Yu Ling, Abraham
Chairman
Hong Kong, Date

4 STAKEHOLDER ENGAGEMENT

The Group believes that stakeholders' perspectives are crucial to its long-term decision making and sustainable development. Therefore, it continuously looks for effective communication channels to collect stakeholders' opinions. The key stakeholders of the Group were identified as investors, employees, suppliers, customers and business partners. The engagement approaches are shown as below:



5 MATERIALITY ASSESSMENT

The Board of the Group has identified 24 key ESG topics for Purapharm based on its business nature. To further understand the expectation of the stakeholder on the Group's sustainable development and what the Group should be focusing on, the Group invited its key stakeholders including suppliers and employees during the reporting period, to rate the importance of various ESG issues to the Group's long-term business development. A total of 66 responses from the stakeholders, in which 46 were from the internal stakeholders and 20 were collected externally. According to the ESG survey results, a materiality matrix is shown as below. The topics at the top right corner of the matrix are regarded as the most material issues to the Group's business.

6 OPERATING A SUSTAINABLE BUSINESS

With the vision to be the most admired herbal medicine company by leading the modernization of traditional medicine, the Group is dedicated to developing and promoting traditional Chinese medicine ("TCM") since its foundation in 1998. With regard to provide quality, reliable and safe products, the Group has placed countless efforts in research and development, plantation, supply chain management, manufacturing and quality control.

6.1 PLANTING SUSTAINABILITY

In order to maintain the stability and consistency of the raw material supply, the Group strives to create a sustainable production cycle in its business. With collaboration with the top research institutes, the Group has established National Research Centre of Medicinal Plants and Seeds Breed in Guizhou province to protect endangered herb species. Through the application of modern biotechnology on species cloning, breeding and planting, the research centre has successfully conserved 45 species. The yield of the species and productivity was also enhanced. In addition to biodiversity conservation, the Group also is committed to saving natural resources. The Group collects herb residues during the manufacturing stage and converts them into fertilizers to attain a circular economy and reduce waste of resources.

6.2 SUSTAINABLE SUPPLY CHAIN

A stable supply chain is one of the critical factors of CCMG product manufacturing. In this regard, the Group has implemented comprehensive policies and management approach to ensure the consistency and quality of the supply chain.

Procurement team are responsible to assess the suitability of raw material suppliers based on their experience, scale of operation and plantation site. In order to control the quality and safety of the herbs, the Group prioritizes purchasing the herbs directly from the respective places of origin.

In pursuance of sustainable sourcing, procurement team takes social and environmental management into the consideration during the supplier selection. The Group requires all its suppliers to comply with all relevant environmental laws and regulations. The Group also highly regards on the business ethics of the supply chain. Suppliers were required to conduct their business with integrity and fairness in accordance with the Group's Code of Conducts.

To ensure the performance of the suppliers, quality assurance team conducts regular site visits to assess and examine the condition of the plantation sites and quality management of the suppliers. In case of any non-compliance, the quality assurance team would suggest improvement plans to the suppliers and require them to respond within 30 days. Afterwards, the team would carry out another audit section to review the performance of the suppliers. If there is no discernible improvement, the Group would consider terminating the contract. As the raw herb of CCMG products must meet the requirements of the Pharmacopoeia of the PRC, the Group's Quality Control Laboratory would conduct tests and assessments on the raw materials to guarantee the raw herbs meet the standard.

Number of suppliers during reporting period:

Country/Region	Number of suppliers
China	139
Hong Kong	39
Others	5

6.3 DELIVERING QUALITY PRODUCTS

Apart from the quality of raw materials, the Group endeavours to manage and improve the quality of its products by implementing a stringent quality management system ("QMS"). In this regard, the Group implemented a series of policies and measures.

Quality Control

With the commitment to healthy, safe and reliable products, the Group established a quality control system and standard operating procedures which are strictly compliant with the Good Manufacturing Practise ("GMP") standards of the PRC's National Medical Products Administration ("NMPA"), Australia's Therapeutic Goods Administration ("TGA"), and the United States Pharmacopeia Convention ("USP").

The Group has established an in-house testing laboratory in Nanning to ensure all its products fulfil and even exceeding the abovementioned standards. The laboratory is certified by the China National Accreditation Service for Conformity Assessment (CNAS) in accordance with the ISO17025:2005 general requirements. Quality control team conducted safety test on the products to detect heavy metals and pesticide residues through utilizing the latest testing technologies and equipment such as DNA fingerprinting in plants, Fourier Transform Infrared Spectroscopy (FTIR) and Ultra-High-Performance Liquid Chromatography (UPLC) before the release of the products to the market. Apart from the internal laboratory, the Group also appointed a third-party laboratory to perform further safety testing on the products to ensure compliance with certain standards.

Product labelling and reliability

Based on the results of materiality assessment, product marketing and labelling was considered as one of the most material social topics to the business. It is not only a tool to help the products to stand out in the market but also providing factual information to the customers and the authorities. Therefore, the Group emphasizes on the authenticity and comprehensiveness of product labelling to eliminate any false or misleading messages and comply with corresponding laws and regulations such as Trade Descriptions Ordinance. In compliance with Chinese Medicines Regulation, the information of the medicine (e.g. medication instructions, manufacturing date, expiry date and ingredients, etc.) were clearly labelled on the packages of the products.

Recall & complaint handling procedures

Purapharm values and respects the comments and complaints from the customers. Therefore, the Group established various channels to collect their feedback on the quality and curative efficacy of the products and services. In case of complaint received from the customers, the Group would categorize the complaint and refer it to the relevant department(s). The responsible department would conduct investigations on the complaint and suggest solutions. After confirmation of the complaint, the department would follow Standard Operation Procedure of Product Recall to recall the corresponding products.

Customer privacy and data protection

As a clinical service provider, the Group handles a number of sensitive personal information of the patients. The privacy of customers and patients are vital to the Group. Aside from abiding the relevant laws and regulations, customer privacy protection allows the Group to gain customers' trust, and maintain brand reputation. In view of this, the Group strives to protect the customers' privacy by developing internal guidelines. The employees are required to follow the listed procedure to handle the personal information of the customers properly and prohibit any unauthorized access to the collected data.

Safeguarding intellectual property rights

Purapharm realizes the importance of intellectual property rights to the business and thus the Group is committed to safeguarding the rights. In terms of intellectual property protection, the Group relied on the shield from patents, trademarks and employee. The Group possesses and has applied for patents to obtain the protection of its manufacturing technologies, prescription and inventions. Also, the Group registered trademarks to protect the market names of its products. In addition to patent and trademarks, employees are the key in safeguarding intellectual properties of the Group. All employees are required to sign a "Non-disclosure Agreement" to keep the Group's sensitive information and intellectual property right confidential and safe. Besides, Employee Handbook has stated the employees' obligation in intellectual property protection.

During the reporting period, the Group had granted 5 patent registration and 1 patent application filed which is pending the approval from the authorities.

7 SHAPING A GREENER FUTURE

Beside the quality monitoring procedure, the Group also keen on operating the business environmentally friendly. In light of this, the Group has integrated sustainability into its business operation and implemented environmental policies and corresponding measures.

7.1 ENERGY CONSUMPTION & GREENHOUSE GAS (GHG) EMISSIONS

The primary source of energy consumption of the Group was electricity which was used to support the manufacturing facilities, equipment and lighting fixtures of offices, factories and clinics. On top of electricity, the Group used natural gas and coal as the fuel of boilers to generate heat and steam for manufacturing process in Nanning and Guizhou factories.

Along with energy consumption, the Group recorded the subsequent greenhouse gas emission. The Group has implemented the mitigating measures to reduce carbon emission from its operation.

Energy mitigation

Factories

- Installed Modified Mechanical Vapor Recompression ("MVR") system reduce the electricity, water, and steam consumption
- Implemented a "10-days work, 3-days rest" policy to shut down all the equipment during 3 resting days
- 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

Office

- Kept the indoor temperature of the office between 24 and 26 degrees Celsius
- Adopted LED light with higher energy efficiency
- Procured energy-efficient electrical appliances with energy label

Energy Consumption (Note 1,2)	Unit	2019	2018
Total Electricity consumption	MWh	10,890	7,826
Offices (Note 3)	MWh	136	3
Manufacturing plants and warehouses	MWh	10,414	7,491
Clinics	MWh	340	332
Total Natural Gas consumption	m^3	2,011,339	1,364,000
Total Coal consumption	tonnes	40	293.2
Total Energy Intensity	GJ / million revenue	171.38	119

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

Note 2: As the production of the products has been increased during the reporting year, the energy consumption was higher than the last reporting period

Note 3: The increase of electricity usage of offices was due to the establishment of Shanghai offices and the updated data collection of HK offices

Greenhouse gas (GHG) emissions (Note 4)	Unit	2019	2018
Direct GHG emissions (Scope 1)	tons of CO_2 equivalent (tCO_2e)	4,666	3,630
Indirect GHG emissions (Scope 2)	tCO_2e	6,390	4,606
Total GHG	tCO_2e	11,056	8,237
Total GHG emissions intensity	tCO_2e / million revenue	15.8	11.1

Note 4: As the production of the products has been increased during the reporting year, the GHG emissions were higher than the last reporting period

7.2 WATER & WASTEWATER MANAGEMENT

The water consumption of the Group was mainly contributed by the product manufacturing, equipment cooling and cleaning at factories and offices. The Group sourced water from municipal water suppliers and had no difficulties in sourcing water. Although water consumption and wastewater management are not the most material issues to the business, the Group is still placing continuous effort in minimizing the use of water resource and water pollution to the aqua ecosystem through the implementation of the following mitigation measures.

Water consumption (Note 5)	Unit	2019	2018
Total water consumed	m^3	208,052	143,565
Total water intensity	m^3 / million revenue	298	193

Note 5: As the production of the products has been increased during the reporting year, the water consumption was higher than the last reporting period

Water consumption mitigation measures

Water Consumption

- Replaced Freon cooling systems with water curtain cooling system
- Applied water cooling system for equipment, such as heat exchanger and vacuum pump to ensure water was used and recycled at 100%
- Reused cooling water in vacuum pump, MVR system and vacuum drying chamber
- Installed irrigation sprinkler to control and save water

Wastewater management

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

7.3 WASTE MANAGEMENT

As a Chinese medicine manufacturer and clinic operator, the waste generated from the Group's operation was divided into non-hazardous waste and hazardous waste. For hazardous waste, acupuncture needles used in clinics and chemicals used in laboratory testing were the major contribution. Realizing the potential impact of the hazardous waste to the environment, the Group has established guidance of relevant clinical and laboratory waste regulation. The hazardous waste was properly segregated and stored before the collection of licensed waste collectors. On the other hand, the non-hazardous waste was mainly generated from herbal residues, general refuse and packaging materials. To reduce the generation of waste, the Group has adopted the following initiatives:

- Used herbal residues as organic fertilizers;
- Sorted and recycled the packaging materials in the production process, such as cartons, plastic bags, plastic bottles, and iron wire;
- Used biodegradable packaging materials; and
- Removed all outer carton boxes in shipping which saved a total of 19,126 outer carton boxes

Waste management (Note 6)	Unit	2019	2018
Non-hazardous			
Herbal residues	tonnes	3,958	1492.1
General refuse	tonnes	99	259.8
Packaging materials	tonnes	378	-
Recycled waste	tonnes	43.34	33.6
Hazardous waste			
Acupuncture waste	kg	46	4
Hazardous liquid waste	L	4549	-
Hazardous solid waste	tonnes	1	-

Note 6: As the production of the products has been increased during the reporting year, the wastes generation was higher than the last reporting period

8 BUILDING A TALENTED TEAM

Realizing the collaborative efforts from the employees are the driving force of the Group's development, the Group is dedicated to protecting, supporting and cultivating them.

8.1 ATTRACTING AND RETAINING TALENTS

The Group sees human capital as one of the most valuable assets of the business. Therefore, the Group has stipulated a series of human resources policies to provide a fair, diversified and friendly working environment to its staff. The Group adheres to the principles of fair opportunity and anti-discrimination to recruit new talents. During the recruitment process, candidates are assessed by their experience, capability and qualification, regardless of their gender, age, religion or other factors that are not related to their suitability to the job. The Human Resources department also verifies the candidates' identification and working permit to prevent employment of child or forced labour.

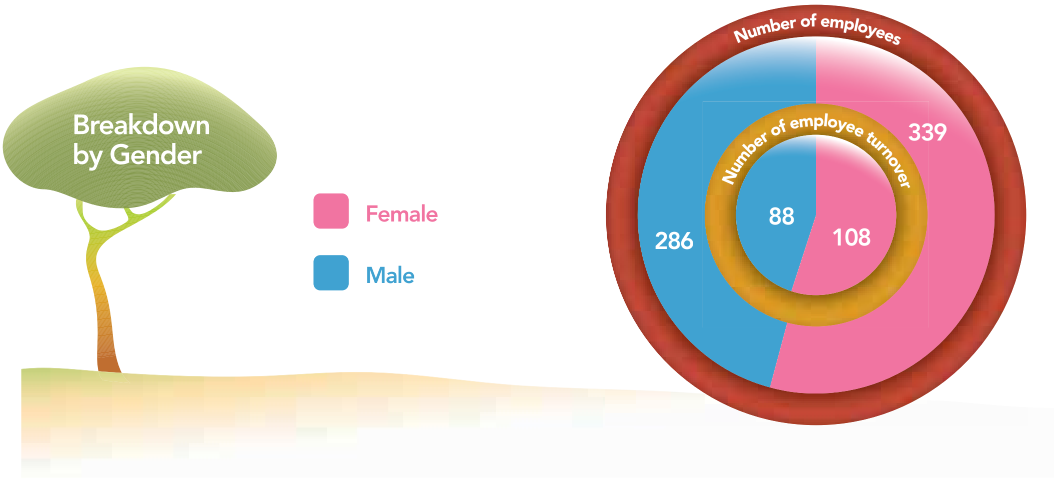
For employee welfare, the Group offers competitive remuneration package and fringe benefit to its employees. Beyond local statutory employee rights, the Group provides special leaves, medical insurance, employee discount, discretionary bonus and training subsidies. The Group regularly reviews the welfare policies and packages with reference to the industry trend. Also, the Group encourages work-life balance and constructs an inclusive culture among the staff. The Group arranged various cross-team activities during the reporting period to strengthen the team bonding and communication.

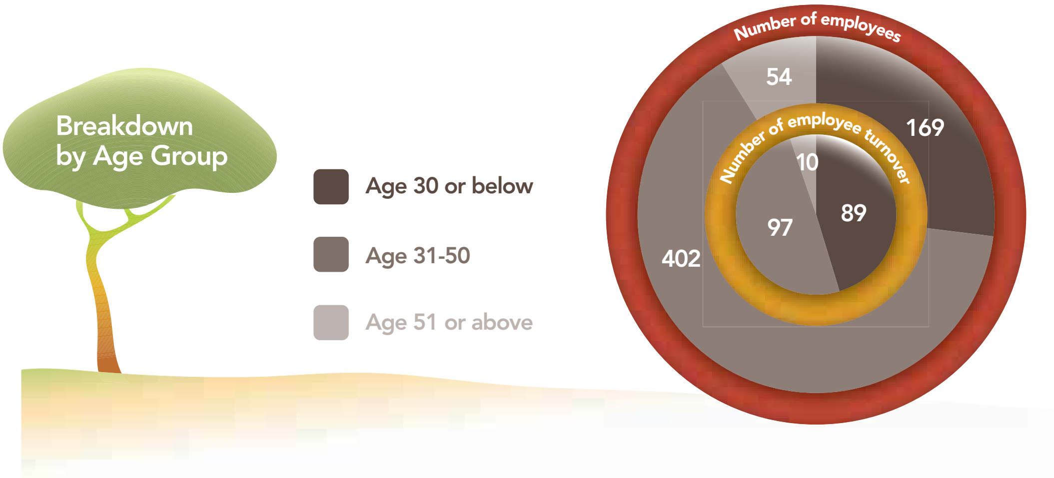
During the reporting period, the Group complied with all relevant local laws and regulations relating to employment practices and labour standards. There was no material non-compliance or reported case of any relevant violation. As at the end of the reporting period, the Group had a total of 625 employees across Hong Kong and the PRC. The breakdown of employees by different categories were listed as below:

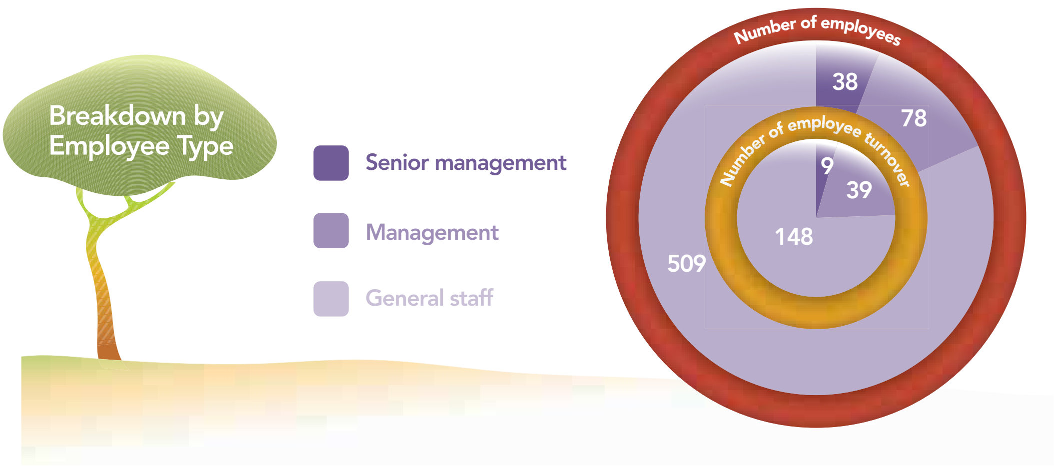
Annual Dinner

Christmas Party 2019

Employment Breakdown







8.2 CULTIVATING TALENTS

Further from employee benefits, the Group supports the growth and development of the employees. The Group developed a comprehensive training policy and provided specialized training programmes to its people based on the job requirement of different positions. For example, the Group offers GMP trainings to quality assurance and production team, and provides leadership training to its senior management. In order to ensure the effectiveness of the training program, the HR department conducts an annual performance assessment on employee and review training policies and programmes every year.

During the reporting period, the Group provided a total of 21,468 training hours to its employees. The average training hours of male and female employees are 43.2 and 26.9 respectively.

Anti-corruption policy

The Group placed high regards on employees' integrity and ethical behaviours when conducting business. By virtue of this, the Group enforced and educated employees with guidelines under the Anti-corruption Management System and the Code of Conduct. Under the guidelines, all staff was not allowed to solicit or accept any advantage from any parties. In case of suspicious misconduct, the employees can report it to the senior management directly and anonymously through whistle-blowing channels. Internal Control department would investigate and report to the authority if necessary.

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

Internal Training Programme

8.3 PROTECTING EMPLOYEES

With the commitment to a safe workplace, the Group has developed safety policies and implemented corresponding measures to identify and minimize the occupational safety risk. The Group has instituted safety training and guidelines to increase the safety awareness of the employees. Health and safety team carries regular inspection on the sites to ensure the guidelines were well implemented and reduce potential occupational hazards. In order to ensure the wellbeing of the staff, the Group also requires the employees to wear protective equipment at work and provides annual health examination to frontline employees.

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

9 GROWING HEALTHY COMMUNITIES

In response to the Group's mission on humanity's quest for longer, healthier and happier lives, the Group has established a set of community investment policies to contribute the development of healthier and happier communities. The Group aims to develop long-term relations with the communities and seeks to make contribution and positive impact on development of health and wellness across communities, promotion of Chinese medicine and career development in Chinese medical field. In order to ensure the resources are deployed efficiently, the policy and initiative will be reviewed by the Chief Executive Officer every three years. The highlight of the Group's community investment during the reporting period:

Community activities

Support health and wellness across local and overseas communities, hospital groups, healthcare organizations and educational institutions

Employees participated "TWGHs Flag Day 2019" to raise fund for enhancing the quality of TWGH community services such as medical and health services to help the underprivileged.

In order to further support TWGH and the vulnerable groups, the Group also placed donation boxes in some Nong's clinics for patients and other customers to donate small change to help people in need.

Facilitate the local community to gain a better understanding of Chinese medicine

The Group organized free medical consultation services such as Philippines Chinese Medicine Service Trip to the general public to promote Chinese medicine healthcare and public health.

On the other hand, the Group also participated in a broad spectrum of industry events such as guest speaker for International Conference of the Modernization of Chinese Medicine & Health Products.

Community activities

Support local students to thrive their education and career development in the Chinese medical field

The Group organized various study tours and site visit for the medical students in Guangxi Traditional Chinese Medical University and Medical University of Vienna.

10 HARVESTING THE AWARDS AND RECOGNITION

As a result of the collective efforts of the employees, the Group attained a number of recognitions and awards during the reporting period.

Name	Issuer
Guangxi Science and Technology Award — Third Class Award	The Guangxi Zhuang Autonomous Region
Chinese Pharmaceutical Association Science and Technology Award — Third Class Award	Chinese Pharmaceutical Association
Guangxi Science and Technology Achievement Registration Certificate	Department of Science and Technology of Guangxi Zhuang Autonomous Region
Danzhai Outstanding Poverty Alleviation enterprises 2018	People's Government of Danzhai
Guizhou Province "Thousands of Enterprises Helping Thousands of Villages" Poverty Alleviation Action — Outstanding Private Enterprise	The Poverty Alleviation and Development Office of Guizhou Province
Guizhou Province Science and Technology Improvement Award	The People's Government of Guizhou Province

11 LOOKING FORWARD

With the commitment to promoting health and wellness of the general public, Purapharm will continue to provide quality products and services to the community. Driving towards the vision of being the most admired herbal medicine company, the Group will explore the opportunity of expanding its portfolio in the PRC market. Meanwhile, the Group will reinforce stakeholder engagement and focus on the identify material sustainability topics to address their concern. The Group is looking forward to its sustainability journey and bringing longer, healthier and happier lives for humanity.

12 ESG CONTENT INDEX

Aspect	KPI	Description	Statement/Section	Page No.
SUBJECT AREA (A) ENVIRONMENT				
A1: EMISSIONS				
A1	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 7 Shaping a greener future (b) There was no non-compliance noticed during the reporting period.	E57
	A1.1	The types of emissions and respective emissions data.	7.1 Energy consumption & greenhouse gas (GHG) emissions	E58
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.1 Energy consumption & greenhouse gas (GHG) emissions	E58
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.3 Waste management	E61
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.3 Waste management	E61
	A1.5	Description of measures to mitigate emissions and results achieved.	7.1 Energy consumption & greenhouse gas (GHG) emissions	E58
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	7.3 Waste management	E61

Aspect	KPI	Description	Statement/Section	Page No.
A2: USE OF RESOURCES				
A2	*General disclosure*	Policies	7 Shaping a greener future	E57
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	7.1 Energy consumption & greenhouse gas (GHG) emissions	E58
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	7.2 Water & Wastewater management	E60
	A2.3	Description of energy use efficiency initiatives and results achieved.	7.1 Energy consumption & greenhouse gas (GHG) emissions	E58
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	7.2 Water & Wastewater management	E60
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	7.3 Waste management	E61
A3: THE ENVIRONMENT AND NATURAL RESOURCES				
A3	*General disclosure*	Policies	7 Shaping a greener future	E57
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	7 Shaping a greener future	E57

Aspect	KPI	Description	Statement/Section	Page No.
SUBJECT AREA (B) SOCIAL				
B1: EMPLOYMENT				
B1	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 8 Building a talented team (b) There was no non-compliance noticed during the reporting period.	E62
	B1.1	Total workforce by gender, employment type, age group and geographical region.	8.1 Attracting and retaining talents	E62
	B1.2	Employee turnover rate by gender, age group and geographical region.	8.1 Attracting and retaining talents	E62
B2: HEALTH AND SAFETY				
B2	*General disclosure*	Information on: (a) the policies; and (b) compliance	(b) There was no non-compliance noticed during the reporting period.	
	B2.1	Number and rate of work-related fatalities.	0	
	B2.2	Lost days due to work injury.	571 days	
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	8.3 Protecting employees	E64
B3: DEVELOPMENT AND TRAINING				
B3	*General disclosure*	Policies	8.2 Cultivating Talents	E64
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	8.2 Cultivating Talents	E64
	B3.2	The average training hours completed per employee by gender and employee category.	8.2 Cultivating Talents	E64

Aspect	KPI	Description	Statement/Section	Page No.
B4: LABOUR STANDARDS				
B4	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 8.1 Attracting and retaining talents (b) There was no non-compliance noticed during the reporting period.	E62
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	8.1 Attracting and retaining talents	E62
	B4.2	Description of steps taken to eliminate such practices when discovered.	8.1 Attracting and retaining talents	E62
B5: SUPPLY CHAIN MANAGEMENT				
B5	*General disclosure*	Policies	6.2 Sustainable supply chain	E55
	B5.1	Number of suppliers by geographical region.	6.2 Sustainable supply chain	E55
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	6.2 Sustainable supply chain	E55
B6: PRODUCT RESPONSIBILITY				
B6	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 6.3 Delivering quality products (b) There was no non-compliance noticed during the reporting period.	E56
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not disclosed	
	B6.2	Number of products and service related complaints received and how they are dealt with.	Not disclosed	
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	6.3 Delivering quality products	E56
	B6.4	Description of quality assurance process and recall procedures.	6.3 Delivering quality products	E56
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	6.3 Delivering quality products	E56

Aspect	KPI	Description	Statement/Section	Page No.
B7: ANTI-CORRUPTION				
B7	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 8.2 Cultivating talents (b) There was no non-compliance noticed during the reporting period.	E64
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	8.2 Cultivating talents	E64
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	8.2 Cultivating talents	E64
B8: COMMUNITY INVESTMENT				
B8	*General disclosure*	Policies	9 Growing healthy communities	E65
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	9 Growing healthy communities	E65
	B8.2	Resources contributed (e.g. money or time) to the focus area.	9 Growing healthy communities	E65

CORPORATE GOVERNANCE REPORT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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 2019.

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 2019 (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 2019.

2. Delegation of Management Function

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

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

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

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

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

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 2019 is set out below:

Remuneration band (HK$)	Number of Individual
Nil–1,000,000	2
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 2019 are set out in note 8 to the consolidated financial statements in this annual report.

3. Board Composition

As at 31 December 2019, 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 10 of this annual report.

During the year 31 December 2019, 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
Non-executive Director	Mr. Chow, Stanley (appointed on 28 August 2018 for a term of 3 years)
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 which is in compliance with Rules 3.10 and 3.10A of the Listing Rules.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. 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 2019, 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 2019, 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 2019 are set out below:

Name of Director	Board meeting	Annual general meeting
Mr. Chan Yu Ling, Abraham	7/7	1/1
Dr. Tsoi Kam Biu, Alvin	7/7	1/1
Ms. Man Yee Wai, Viola	7/7	1/1
Mr. Chan Kin Man, Eddie	6/7	1/1
Mr. Chow, Stanley	7/7	1/1
Dr. Chan Kin Keung, Eugene	7/7	1/1
Dr. Leung Lim Kin, Simon	7/7	1/1
Mr. Ho Kwok Wah, George	7/7	1/1
Prof. Tsui Lap Chee	5/7	1/1

Practices and conduct of meetings

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

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

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

The 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.

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

Committee members	Meeting attended/ Total
Dr. Chan Kin Keung, Eugene *(Chairman)*	2/2
Dr. Tsoi Kam Biu, Alvin	2/2
Prof. Tsui Lap Chee	2/2

2. Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the Code. The Audit Committee comprises three independent non-executive 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 Company's financial information; (iii) reviewing the financial controls, internal control and risk management systems of the Group; and (iv) reviewing financial and accounting policies and practices of the Group.

The Audit Committee has 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 2019 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
(resigned on 27 March 2019)
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee
(appointed on 27 March 2019)

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)*	1/1
Dr. Chan Kin Keung, Eugene	1/1
Dr. Leung Lim Kin, Simon	1/1
Prof Tsui Lap Chee	N/A

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.

Nomination Criteria

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

- the candidate's character and integrity;
- the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;
- for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

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

Appointment of New and Replacement Directors

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

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

Re-election of Directors and Nomination from Shareholders

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

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

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 2019, none of the members of Scientific Advisory Committee are Director of the Company:

Prof. Paul Vanhoutte *(Chairman)*
(passed away)
Prof. Rudolf Bauer
Prof. Piu Chan
Prof. Peter Hylands *(passed away)*
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.

During the Review Period, two committee members were passed away, including the Chairman, Prof. Paul Vanhoutte. The Board is looking for an appropriate candidate to fill the casual vacancy of the Chairman of the Scientific Advisory Committee. During the Review Period, no meeting was held by the Scientific Advisory Committee.

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 104 to 109.

For the year ended 31 December 2019, the fees paid/payable to Ernst & Young for the audit service were HK$2,300,000.

Fees paid/payable to Ernst & Young for non-audit services provided to the Group for the year ended 31 December 2019 were HK$650,000. The non-audit services were mainly for reviewing of the Group's interim results.

Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements for the financial year, which give a true and fair view of the financial position of the Company and the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared disclosure of the financial position of the Group with reasonable accuracy at any time.

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

F. Risk Management and Internal Controls

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing the effectiveness of the Group's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate.

The 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.

An internal audit function was set up, details of which are stated in the Risk Management Report in this annual report.

During the year ended 31 December 2019, 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. Such review shall be conducted annually. The Audit Committee believes that the existing internal control system is adequate and effective.

G. Investor Relations

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

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

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

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

During the year ended 31 December 2019, 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.

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.

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. 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 2019, 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

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 2019:

- Management conducted annual Internal Control Self-Evaluation in 2019. Department heads confirmed that appropriate and effective internal control policies and procedures have been established and complied with.

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

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

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

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

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

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

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

ENTERPRISE RISK MANAGEMENT FRAMEWORK

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

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

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

<u>Risk Control</u>
Assess the effectiveness of current controls over the identified risk.

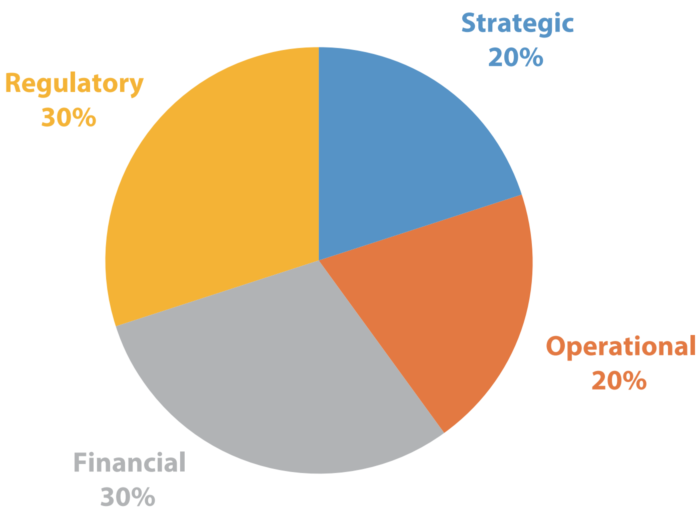
<u>Risk Monitoring</u>
Monitor risk mitigation measures implemented by risk owners.

SIGNIFICANT RISKS

In 2019, the Board conducted an annual Group-wide risk assessment project based on the Group's ERM framework to review identified risks and assess the risks might arise from its businesses. The identified risks are rated by a combination of likelihood and consequences after considering current mitigation measures implemented regarding a risk matrix to get overall ratings. All identified risks are then ranked by the overall rating. The overall risk ratings reflect the required management attention and risk treatment effort. In the Group Risk Report, 4 categories of major risk types were identified and are illustrated in the diagram below.

The Group's Key Risk Exposures:

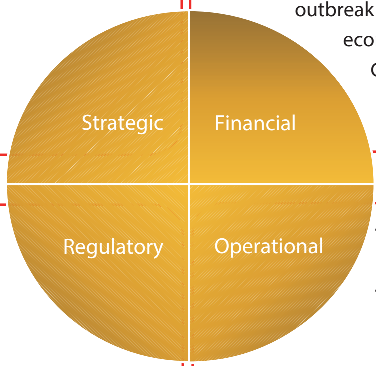
SIGNIFICANT RISKS



PuraPharm Key Risk Exposures:

- Loss of revenue/market share
- Fail to implement business plan

- Currency risk and exchange control associated with operations outside Hong Kong
- Losses due to counterparties' failure to meet their settlement obligations
- The large-scale and multi-country COVID-19 outbreak is expected to worsen the global economic environments in 2020. The Group's sales and operating cash flow will be negatively impacted.



- PRC government may open the CCMG market, inducing more competitors
- Changes in industry regulations impacting the Group
- Risk of becoming a party to various litigation, legal disputes, claims or administrative proceedings arising in the ordinary course of business

- Change of market receptiveness of Chinese medicine products
- Shortage of raw herbs due to natural disasters

Details of Key Risks Identified

Throughout the risk assessment process in 2019, the following are the material risks identified and their respective mitigation plan(s):

Category	Risk identified	Mitigation plan(s)
Strategic	Loss of revenue/market share	• 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	Losses due to counterparties' failure to meet their settlement obligations	• With guidelines to control approval of credit limit and credit terms
Financial	The large-scale and multi-country COVID-19 outbreak is expected to worsen the global economic environments in 2020. The Group's sales and operating cash flow will be negatively impacted	• Implement stringent cost control and cash flow management • Minimise or slowdown investment and expansion plan to reserve the cash resources • Explore the business opportunities for healthcare products and online sales channel to offset the downside impact of the retail channel
Operational	Change of market receptiveness of Chinese medicine products	• Continuously perform clinical studies or R&D projects on the effectiveness of Chinese medicine • Obtain various certificates for our products in order to raise public's confidence
Operational	Shortage of raw herbs due to natural disasters	• Maintain sufficient inventory level to avoid the shortage of raw herbs

REPORT OF THE DIRECTORS


金靈芝
PURAGOLD

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Management Discussion and Analysis" set out on pages 36 to 48 of this annual report. This discussion forms part of this directors' report.

RESULTS

The Group's profit for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the consolidated financial statements on pages 110 to 230.

COMPLIANCE WITH THE LAWS AND REGULATIONS

During the year ended 31 December 2019 and up to the date of this annual report, the Group in all material aspects has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year ended 31 December 2019 and up to the date of this annual report.

DIVIDEND POLICY

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

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

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

The Board did not recommend the payment of final dividend for the year ended 31 December 2019 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 2019, the Group had utilised approximately HK$275.6 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	Total approximate amount of net proceeds (in HK$ million)	Approximate amount utilised as at 31 December 2019 (in HK$ million)	Approximate amount unutilised as at 31 December 2019 (in HK$ million)
To expand manufacturing facilities and enhance existing production lines	86.5	86.5	–
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	72.1	–
To expand distribution network into new target cities in the PRC	57.7	57.7	–
To fund the development and launch of two new proprietary Chinese medicine products	43.3	30.5	12.8
Additional working capital of the Group	28.8	28.8	–
	288.4	275.6	12.8

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

The Company intends to continue to apply the remaining unutilised portion of the net proceeds in accordance with the section headed "Future Plan and Use of Proceeds" in the prospectus of the Company dated 25 June 2015.

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 232. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2019 are set out in note 31 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 12 June 2019, a loan capitalisation agreement (the "Loan Capitalisation Agreement") was entered into between the Company and Mr. Abraham Chan, pursuant to which the Company as issuer conditionally agreed to allot and issue and Mr. Abraham Chan as the subscriber conditionally agreed to subscribe for 15,544,041 new Shares (the "Capitalisation Share(s)") at the issue price of HK$1.93 per Capitalisation Share under specific mandate for capitalising HK$30,000,000 from the outstanding principal amount of the shareholder's loan of HK$45,000,000 (the "Loan Capitalisation").

Other than disclosed above, the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities throughout the year ended 31 December 2019.

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 2019, the Company's reserves available for distribution amounted to approximately HK$143,516,000.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2019, the Group made charitable contributions totaling HK$1,317,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, sales to the Group's five largest customers accounted for 16.6% (2018: 17.5%) of the total sales and sales to the largest customer included therein amounted to 3.8% (2018: 5.7%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year ended 31 December 2018 (2018: less than 30%).

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

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

DIRECTORS

The directors of the Company during the year ended 31 December 2019 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

Non-executive Director:

Mr. Chow, Stanley

Independent non-executive Directors:

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

In accordance with articles 108 of the Company's articles of association, Mr. Chan Kin Man, Eddie, Mr. Ho Kwok Wah, George, and Dr. Leung Lim Kin, Simon 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 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance, the results of the Group and recommendation from the remuneration committee. Details of the remuneration of the Directors and the five highest paid individuals of the Group for the year ended 31 December 2019 are set out in notes 8 and 9 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year ended 31 December 2019.

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

As at 31 December 2019, the Directors and chief executive of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Nature of Interest	Number of Ordinary Shares held or interested[1]	Percentage of the Company's issued share capital
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Interest of controlled corporations	126,903,220 (L)[2][3][4]	48.21%
	Beneficial owner	20,714,541 (L)	7.87%
	Interest of spouse	52,396,500 (L)[5]	19.90%
	Beneficiary of a trust	150,000 (L)[9]	0.06%
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Interest of a controlled corporation	51,566,500 (L)[6]	19.59%
	Beneficial owner	755,000 (L)	0.29%
	Interest of spouse	147,767,761 (L)[7]	56.13%
	Beneficiary of a trust	75,000 (L)[9]	0.03%
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Interest of controlled corporations	3,125,000 (L)[8]	1.19%
	Beneficial owner	2,093,000 (L)	0.80%
	Beneficiary of a trust	10,000 (L)[9]	0.004%
Dr. Tsoi Kam Biu, Alvin	Beneficial owner	755,000 (L)	0.29%
	Beneficiary of a trust	75,000 (L)[9]	0.03%
Dr. Chan Kin Keung, Eugene	Beneficial owner	10,000 (L)	0.004%
	Beneficiary of a trust	10,000 (L)[9]	0.004%
Mr. Ho Kwok Wah, George	Beneficial owner	10,000 (L)	0.004%
	Beneficiary of a trust	10,000 (L)[9]	0.004%
Dr. Leung Lim Kin, Simon	Beneficial owner	10,000 (L)	0.004%
	Beneficiary of a trust	10,000 (L)[9]	0.004%
Prof. Tsui Lap Chee	Beneficial owner	10,000 (L)	0.004%
	Beneficiary of a trust	10,000 (L)[9]	0.004%

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 62,286,000 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 2019, 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 2019, 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)	19.59%
Joint Partners	Interest of a controlled corporation	51,566,500 (L)[2]	19.59%
Fullgold Development	Beneficial owner	62,286,000 (L)	23.66%
Gold Sparkle	Beneficial owner	13,050,720 (L)	4.96%
Successful Lotus Limited	Beneficial owner	15,000,000 (L)	5.70%
	Beneficial owner	15,000,000 (S)	5.70%
Mr. Lee Ka Kit	Interest of a controlled corporation	15,000,000 (L)[3]	5.70%
	Interest of a controlled corporation	15,000,000 (S)[3]	5.70%

Notes:

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

2. 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.

3. Successful Lotus Limited is wholly-owned by Mr. Lee Ka Kit. Therefore, Mr. Lee Ka Kit is deemed to be interested in the long position and short position of 15,000,000 Shares owned by Successful Lotus Limited.

Save as disclosed above, as at 31 December 2019, 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 32(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.

On 9 May 2019, 6,376,000 share options were granted to certain Directors and employees of the Company, entitling them to subscribe for a total of 6,376,000 ordinary shares of the Company under the Option Scheme. Details of the share options granted are set out below:

Grantees	Grant date	Exercise price	Vesting date	As at 1 January 2019	Number of Shares issuable under Options granted	Exercised during the year	Cancelled/ lapsed during the year	As at 31 December 2019
Directors	9 May 2019	HK$2.4	10 May 2020	–	2,763,000	–	–	2,763,000
			10 May 2021	–	2,763,000	–	–	2,763,000
				–	5,526,000	–	–	5,526,000
Employees	9 May 2019	HK$2.4	10 May 2020	–	212,500	–	–	212,500
			10 May 2021	–	212,500	–	–	212,500
			10 May 2022	–	212,500	–	–	212,500
			10 May 2023	–	212,500	–	–	212,500
				–	850,000	–	–	850,000
Total				–	6,376,000	–	–	6,376,000

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 2019, no Share was purchased by the Share Award Scheme Trust.

As at 31 December 2019, the Share Award Scheme Trust held 2,206,000 shares (the "Award Shares") (31 December 2018: 2,496,000 Award Shares). During the year ended 31 December 2019, (i) no Award Share was granted; (ii) 290,000 Award Shares were vested to the Eligible Participants; and (iii) 210,000 Award Shares were forfeited due to the resignation of Eligible Award Participants.

The Group recognised a net share award expense of HK$578,000 for the year ended 31 December 2019 (2018: HK$2,114,000).

CONNECTED TRANSACTIONS

Shareholder's Loan Capitalisation

On 12 June 2019, the Company entered into the loan Capitalisation Agreement with Mr. Abraham Chan for capitalising HK$30,000,000 from the outstanding principal amount of HK$45,000,000 at the consideration of issuing 15,544,041 new Shares.

As Mr. Abraham Chan is the chairman of the Board, the chief executive officer, the executive Director and a controlling Shareholder of the Company, Mr. Abraham Chan is a connected person under the Listing Rules and the Loan Capitalisation constitutes a non-exempted connected transaction under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The Loan Capitalisation has been approved by an extraordinary general meeting of the Company on 8 August 2019 and 15,544,041 Capitalisation Shares were issued to Mr. Abraham Chan on 2 September 2019.

For further information in relation to the Loan Capitalisation, please refer to the announcement of the Company dated 12 June 2019 and the circular of the Company dated 24 July 2019.

Saved as the Loan Capitalisation disclosed above, the Company and the Group had no further connected and continuing connected transactions during the year ended 31 December 2019, which were subject to the annual reporting requirement of Chapter 14A of the Listing Rule.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year ended 31 December 2019 are set out in note 37 to the consolidated financial statements.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Pursuant to the deed of non-competition dated 16 June 2015 entered into by Fullgold Development, Joint Partners, PuraPharm Corp, Mr. Abraham Chan, Ms. Viola Man (collectively known as the "Covenantors") in favour of the Company (the "Deed of Non-Competition), each of the Covenantors has confirmed to the Company of its/his/her compliance with the Deed of Non-Competition during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 37 to the consolidated financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

For details of the Group's environmental policies and performance, please refer to the Environmental, Social and Governance Report set out on pages 52 to 71 of this annual report.

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

On 3 January 2020, the Company announced a proposed Rights Issue to raise about HK$105 million before expenses by issuing 131,630,980 Rights Shares, on the basis of one Rights Share for every two existing Shares then held at the Subscription Price of HK$0.80 per Rights Shares. The Rights Issue was completed on 2 March 2020, and 131,630,980 Rights Shares were allotted and issued to the shareholders accordingly.

For further information in relation to the Rights Issue, please refer to the announcement of the Company dated 3 January 2020, prospectus of the Company dated 7 February 2020, and the announcement of the Company dated 28 February 2020.

Save as disclosed above, 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
24 March 2020

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

安永

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 110 to 230, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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	
As at 31 December 2019, the carrying value of goodwill in the consolidated financial statements amounted to HK$88,339,000, after making an impairment of HK$67,346,000. In accordance with HKFRSs, the Company is required to perform the impairment test for goodwill annually. In performing the impairment test, the goodwill generated from each acquisition is allocated to the corresponding subsidiaries acquired as each of these acquired subsidiaries is a separate cash-generating unit (the "CGU"). The 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 the test process involved significant judgements. The Company's disclosures about the impairment of goodwill are included in notes 2.4, 3 and 16 to the financial statements, which specifically explain the key assumptions 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 whether 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 2019; 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 (continued)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment for non-current assets in the Group's Clinics Segment	
In light of the impact of social issues in Hong Kong starting from June 2019 and continued competitive environment in which the Group's clinics operates, the management of the Group made impairment provisions in the Group's Clinics Segment amounting to HK$17.2 million on property, plant and equipment and other intangible assets; and HK$22.4 million on right-of-use assets, respectively, based on the value in use of the underlying businesses for each of the Group's clinics (the "VIU") as at 31 December 2019. The VIU was determined based on the discounted cash flow projections, which involved significant judgements to determine the key assumptions made. As the impairment assessment of non-current assets in the Group's Clinics segment involved significant judgement and assumption, we regard this as a key audit matter. The Company's disclosures about the impairment assessment for non-current assets in the Group's Clinics Segment are included in notes 2.4, 3, 4, 13, 15 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 testing the design and implementation of key controls around the impairment review processes and assessing the appropriateness of the methodology applied by management of the Group in calculating the impairment charges, and the judgements applied in determining the CGUs of the business, which the Group has determined as being individual clinics. We examined the underlying data and key assumptions utilised in the cash flow projections prepared by the management by comparing them with historical performance of each clinics, market expectations and our understanding of the Group's most recent business strategic. We also inspected the adequacy of the disclosures regarding the impairments of non-current assets.
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$62,513,000 as at 31 December 2019. Management engaged an independent external valuer to assess the fair value of the Group's biological assets as at 31 December 2019. 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 20 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 evaluated the reasonableness of 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 management to determine the valuation of the biological assets and evaluated the adequacy of the disclosures of biological assets.

KEY AUDIT MATTERS (continued)

Key audit matters	How our audit addressed the key audit matters
Provision for impairment of trade and bills receivables	
As at 31 December 2019, the Group had trade and bills receivables of HK$230,734,000, after making a provision of HK$17,266,000. 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 the high level of management estimation required and 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 2.4, 3 and 21 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; and 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.
Inventories provision	
As at 31 December 2019, the Group had inventories of HK$200,888,000, after making a provision of HK$7,448,000. The Group has over 800 types of concentrated Chinese medicine granule ("CCMG") products and Chinese healthcare products and needs 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 of inventories provision are included in notes 3 and 19 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 particular 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.

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

24 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**695,879**	745,503
Cost of sales		**(297,040)**	(290,603)
Gross profit		**398,839**	454,900
Other income and gains	5	**17,467**	49,615
Selling and distribution expenses		**(226,212)**	(229,995)
Administrative expenses		**(228,482)**	(217,026)
Impairment loss on property, plant and equipment	13	**(19,063)**	—
Impairment loss on right-of-use assets	15	**(22,380)**	—
Impairment loss on goodwill	16	**(67,346)**	—
Impairment losses on financial assets, net	21	**(5,391)**	—
Other expenses		**(36,379)**	(9,084)
Finance costs	7	**(27,203)**	(21,879)
PROFIT/(LOSS) BEFORE TAX	6	**(216,150)**	26,531
Income tax expense	10	**(11,108)**	(5,725)
PROFIT/(LOSS) FOR THE YEAR		**(227,258)**	20,806
Attributable to:			
Owners of the parent		**(227,258)**	20,806
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic (Restated for 2018)			
— For (loss)/profit for the year (expressed in HK cents per share)		**(87.16)**	8.16
Diluted (Restated for 2018)			
— For (loss)/profit for the year (expressed in HK cents per share)		**(87.16)**	8.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**(227,258)**	20,806
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	**(6,758)**	(9,783)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(6,758)**	(9,783)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(234,016)**	11,023
Attributable to:		
Owners of the parent	**(234,016)**	11,023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**239,356**	294,676
Investment properties	14	**7,557**	—
Prepaid land lease payments	15(a)	**—**	45,622
Right-of-use assets	15(b)	**121,117**	—
Goodwill	16	**88,339**	155,685
Other intangible assets	17	**34,275**	36,190
Financial assets at fair value through profit or loss	18	**18,195**	10,741
Biological assets	20	**52,436**	28,386
Prepayments for non-current assets	22	**50,902**	13,196
Deferred tax assets	30	**12,363**	16,383
Total non-current assets		**624,540**	600,879
CURRENT ASSETS			
Inventories	19	**200,888**	214,033
Biological assets	20	**10,077**	45,461
Trade and bills receivables	21	**230,734**	290,657
Prepayments, other receivables and other assets	22	**62,879**	66,402
Tax recoverable		**—**	1,787
Pledged deposits	23	**25,115**	9,000
Cash and cash equivalents	23	**68,009**	104,884
Total current assets		**597,702**	732,224
CURRENT LIABILITIES			
Trade and bills payables	24	**178,985**	139,201
Other payables and accruals	25	**97,285**	71,426
Interest-bearing bank and other borrowings	26	**312,282**	354,028
Lease liabilities	15(c)	**28,030**	—
Loans from a director	28	**15,000**	30,000
Tax payable		**5,850**	3,712
Government grants	29	**1,648**	2,358
Total current liabilities		**639,080**	600,725
NET CURRENT ASSETS/(LIABILITIES)		**(41,378)**	131,499
TOTAL ASSETS LESS CURRENT LIABILITIES		**583,162**	732,378

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	25	**30,173**	—
Interest-bearing bank and other borrowings	26	**143,715**	164,449
Lease liabilities	15(c)	**42,506**	—
Government grants	29	**2,038**	3,194
Deferred tax liabilities	30	**2,607**	2,516
Total non-current liabilities		**221,039**	170,159
Net assets		**362,123**	562,219
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	**204,028**	191,981
Shares held for share award scheme	32(b)	**(7,200)**	(8,200)
Reserves	33	**165,295**	378,438
Total equity		**362,123**	562,219

Mr. Chan Yu Ling, Abraham
Director

Dr. Tsoi Kam Biu, Alvin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Share capital HK$'000 (note 31)	Share premium account HK$'000 (note 31)	Shares held for share award scheme HK$'000 (note 32(b))	Reserve for share award and share option scheme HK$'000 (note 32)	Merger reserve HK$'000 (note 33)	Surplus reserves HK$'000 (note 33)	Capital reserve HK$'000 (note 33)	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	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 loss for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(9,783)	—	(9,783)
Total comprehensive income/(loss) for the year	—	—	—	—	—	—	—	(9,783)	20,806	11,023
Transfer from retained profits	—	—	—	—	—	1,339	—	—	(1,339)	—
Recognition of equity-settled share award expenses	—	—	—	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

	Notes	Share capital HK$'000 (note 31)	Share premium account HK$'000 (note 31)	Shares held for share award scheme HK$'000 (note 32(b))	Reserve for share award and share option scheme HK$'000 (note 32)	Merger reserve HK$'000 (note 33)	Surplus reserves HK$'000 (note 33)	Capital reserve HK$'000 (note 33)	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2019		191,981	206,811	(8,200)	2,382	1,814	28,646	(7,505)	(9,457)*	155,747	562,219
Loss for the year		–	–	–	–	–	–	–	–	(227,258)	(227,258)
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(6,700)	–	(6,700)
Total comprehensive loss for the year		–	–	–	–	–	–	–	(6,700)	(227,258)	(233,958)
Capitalisation of loans from a director	31	12,047	17,953	–	–	–	–	–	–	–	30,000
Share issue expense	31	–	(361)	–	–	–	–	–	–	–	(361)
Recognition of equity-settled share option expenses	32(a)	–	–	–	3,645	–	–	–	–	–	3,645
Recognition of equity-settled share award expenses	32(b)	–	–	–	1,113	–	–	–	–	–	1,113
Forfeiting of award shares granted under share award scheme		–	–	–	(535)	–	–	–	–	–	(535)
Transfer of vested shares under Share Award Scheme		–	81	1,000	(1,081)	–	–	–	–	–	–
At 31 December 2019		204,028	224,484*	(7,200)	5,524*	1,814*	28,646*	(7,505)*	(16,157)*	(71,511)*	362,123

* These reserve accounts comprise the consolidated reserves of HK$165,295,000 (2018: HK$378,438,000) in the consolidated statement of financial position as at 31 December 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(216,150)	26,531
Adjustments for:			
Finance costs	7	27,203	21,879
Bank interest income	5	(592)	(431)
Foreign exchange loss, net	6	2,405	5,502
Loss on disposal of items of property, plant and equipment	6	3,149	2,574
Equity-settled share award and share option expenses	32	4,223	2,114
Depreciation of property, plant and equipment	6	29,370	33,379
Depreciation of right-of-use assets	6	33,620	—
Recognition of prepaid land lease payments	6	—	1,396
Amortisation of intangible assets	6	3,765	3,917
Fair value loss on investment properties	6	1,452	—
Fair value loss on financial assets at fair value through profit or loss	6	1,546	—
Fair value loss/(gain) on biological assets	6	19,642	(26,553)
Impairment loss on property, plant and equipment	6	19,063	—
Impairment loss on right-of-use assets	6	22,380	—
Impairment loss on goodwill	6	67,346	—
Impairment loss on other intangible assets	6	54	—
Write-down of inventories to net realisable value	6	6,286	4,399
Impairment loss on trade and bills receivables	6	5,391	772
		30,153	75,479
Decrease in inventories		33,396	75,495
Increase in biological assets		(41,439)	(26,705)
(Increase)/decrease in trade and bills receivables		47,875	(56,344)
(Increase)/decrease in prepayments, deposits and other receivables		804	(15,006)
Increase in trade and bills payables		44,412	30,886
Decrease in government grants		(1,724)	(1,106)
Increase/(decrease) in other payables and accruals		20,396	(1,296)
Cash generated from operations		133,873	81,403
Interest received		592	431
Hong Kong profits tax paid		(514)	(4,572)
Overseas profits tax paid		(2,190)	(1,414)
PRC profit taxes paid		(561)	(3,387)
Net cash flows generated from operating activities		131,200	72,461

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(66,427)	(45,192)
Receipt of retention money from a construction project		30,613	—
Acquisition of right-of-use assets		(28,518)	—
Proceeds from disposal of property, plant and equipment		—	91
Additions to intangible assets		(2,014)	(2,672)
(Purchase)/disposal of financial assets at fair value through profit or loss		(9,000)	11,685
Increase in pledged time deposits, net		(16,115)	—
Net cash flows used in investing activities		(91,461)	(36,088)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings	34(b)	333,417	514,214
Repayment of bank loans and other borrowings	34(b)	(367,318)	(548,904)
Share issue expenses	31	(361)	—
Loans from a director	34(b)	15,000	50,000
Repayment of loans to a director		—	(20,000)
Principal portion of lease payments	34(b)	(30,719)	—
Interest paid for lease liabilities	34(b)	(5,501)	—
Interest paid for bank and other borrowings		(23,764)	(23,334)
Net cash flows used in financing activities		(79,246)	(28,024)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(39,507)	8,349
Cash and cash equivalents at beginning of year		90,516	86,805
Effect of foreign exchange rate changes, net		(580)	(4,638)
CASH AND CASH EQUIVALENTS AT END OF YEAR		50,429	90,516
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	68,009	104,884
Bank overdrafts	26	(17,580)	(14,368)
Cash and cash equivalents as stated in the statement of cash flows		50,429	90,516

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the year, the Group has 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 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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
PuraPharm Holdings Limited	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	BVI	US$1	—	100%	Investment holding and trading of Chinese healthcare products and modernised Chinese medicines
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 ("USA")	US$1,000	—	100%	Trading of Chinese healthcare products
Nong's Corporation Limited	BVI	US$25,019	—	100%	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PuraPharm Research Corporation Limited[a]	Hong Kong	HK$10,000	—	100%	Research and development of modernised Chinese medicines
PuraPharm International Limited	Hong Kong	HK$2	—	100%	Trading of Chinese healthcare products
Nong's Company Limited[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	BVI	US$1,283	—	100%	Investment holding
Nong's Chinese Medicine Clinic Centre Limited[a]	Hong Kong	HK$2	—	100%	Provision of Chinese medical diagnostic services
PuraPharm Investment Limited[a]	Hong Kong	HK$1	—	100%	Trading of Chinese medicines
PuraPharm Australia Pty Ltd.[a]	Australia	Australian Dollar ("AU$") 1	—	100%	Trading of Chinese healthcare products
PuraPharm Health Limited	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

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 4 Limited[(a)]	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 5 Limited[(a)]	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 6 Limited[(a)]	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 7 Limited[(a)]	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
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
K'an Herb Company[(a)]	USA	US$233,848	—	100%	Manufacture and sale of Chinese herbal products
Gold Sparkle(Guizhou) Chinese Medicine Co., Ltd.[(c)] [(d)]	PRC	RMB68,000,000	—	100%	Plantation and trading of raw Chinese herbs

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
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%	Property investment
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, investment properties, and biological assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2019, the Group had net current liabilities of HK$41.4 million (31 December 2018: net current assets of HK$131.5 million). In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

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

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

(c) As at 31 December 2019, the Group had unutilised bank facilities amounting to HK$80.2 million (note 26). Therefore, upon repayment when due or on demand, subject to the condition that the Group will be able to repay the total principal and interest due upon the respective repayment dates. Based on the past experience and maturity of the aforesaid facilities, the directors consider it is highly probable that the Group can withdraw adequate amount of short-term bank loans for another year to maintain sufficient working capital of the Group.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period over twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with the Group's internally generated funds, unutilised bank facilities and net proceeds from the rights issue completed on 2 March 2020 (note 43), the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2019 on a going concern basis.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

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 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and Annual Improvements to HKFRSs 2015–2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

HKFRS 16

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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 16 (continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 16 (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets for most leases were 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 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK$26,024,000, and prepaid land lease payments of HK$45,622,000 and HK$1,556,000 that were reclassified from property, plant and equipment, prepaid land lease payments and prepayments, other receivables and other assets, respectively.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

As a lessee — Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 16 (continued)

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK$'000
Assets	
Increase in right-of-use assets	122,678
Decrease in property, plant and equipment	(26,024)
Decrease in prepaid land lease payments	(45,622)
Decrease in prepayments, other receivables and other assets	(1,556)
Increase in total assets	49,476
Liabilities	
Increase in lease liabilities	73,598
Decrease in interest-bearing bank and other borrowing	(24,122)
Increase in total liabilities	49,476

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	76,255
Weighted average incremental borrowing rate as at 1 January 2019	4.15%
Discounted operating lease commitments as at 1 January 2019	60,341
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(10,865)
Add: Commitments relating to leases previously classified as finance leases	24,122
Lease liabilities as at 1 January 2019	73,598

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*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

The Group expects that the adoption of the above new and revised standards will have no significant impact on the Group's financial statements.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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.

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

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

Intangible assets (other than goodwill)

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

Trademarks, patents, licences and software

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

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

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(b) Lease liabilities

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

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

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

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

Group as a lessor

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable before 1 January 2019)

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.

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

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

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

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

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

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

General approach

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (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.

Financial liabilities

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4SUMMARY 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 profit or loss in the period of harvest. Upon subsequent sales, such amount of the inventories initially recognised is charged to the cost of sales in profit or loss.

Biological assets

Biological assets are measured on initial recognition and at the end of each reporting period at their fair values less costs to sell. If the fair value of a biological 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 profit or loss for the period in which the gain or loss arises.

Cash and cash equivalents

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

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

Provisions

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

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

Revenue recognition

Revenue 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.

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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

(a) Sale of goods

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

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

(i) Rights of return

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

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) Rendering of services

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

Other income

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

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

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

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

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

Contract assets

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

Contract liabilities

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

Right-of-return assets

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

Refund liabilities

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements

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

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

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

Employee benefits

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

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

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

2.4SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of biological assets

The biological assets are stated at fair values less cost to sell. This requires an independent valuer's assessment of the fair value of the biological assets. Changes in conditions of the biological assets could impact the fair value of the assets. Further details are given in note 20 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Provision for expected credit losses on trade and bills receivables

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 30 to the financial statements.

Write-down of inventories to net realisable value

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

Leases — Estimating the incremental borrowing rate

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2019 and 2018.

31 December 2019

	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	285,220	161,573	90,429	96,413	62,244	—	695,879
Intersegment sales	100,421	15,924	971	—	46,113	(163,429)	—
	385,641	177,497	91,400	96,413	108,357	(163,429)	695,879
Segment results	(10,606)	32,561	14,769	(65,437)	(104,272)	—	(132,985)
Reconciliations:							
Interest income							592
Foreign exchange loss, net							(2,405)
Equity-settled share award and share option expenses							(4,223)
Finance costs (other than interest on lease liabilities)							(21,702)
Corporate and other unallocated expenses							(55,427)
Loss before tax							(216,150)
Income tax expense							(11,108)
Net loss							(227,258)
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible asset	9,315	2,642	3,361	13,184	4,633	—	33,135
Depreciation of right-of-use asset	8,890	1,155	1,922	19,679	1,974	—	33,620
Loss on disposal of property, plant and equipment	—	—	—	3,149	—	—	3,149
Write-down of inventories to net realisable value	5,681	605	—	—	—	—	6,286
Impairment loss on property, plant and equipment, other intangible assets and right-of-use assets	1,882	—	—	39,615	—	—	41,497
Impairment loss on goodwill	—	—	—	—	67,346	—	67,346
Capital expenditure*	6,582	1,246	1,866	7,163	42,395	—	59,252
Impairment loss on trade and bills receivables	4,220	403	98	—	670	—	5,391

4. OPERATING SEGMENT INFORMATION (continued)

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:							
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	19,280	(22,588)	27,880	—	106,070
Reconciliations:							
Interest income							431
Foreign exchange loss, net							(5,502)
Equity-settled share award expenses							(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
Capital expenditure*	9,918	890	5,731	14,335	14,723	—	45,597
Impairment loss on trade and bills receivables	772	—	—	—	—	—	772

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 HK$'000	2018 HK$'000
Hong Kong	297,137	312,757
Mainland China	350,740	382,786
Other countries/regions	48,002	49,960
	695,879	745,503

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

(b) Non-current assets

	2019 HK$'000	2018 HK$'000
Hong Kong	136,641	202,744
Mainland China	436,520	350,851
Other countries/regions	20,821	20,160
	593,982	573,755

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

Information about a major customer

For the years ended 31 December 2019 and 2018, 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:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers		
Sale of CCMG products	517,453	566,758
Sale of Chinese healthcare products	90,429	99,024
Sale of raw Chinese herbs	62,244	54,226
Rendering of Diagnostic Services	25,753	25,495
	695,879	745,503

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Type of goods or services			
Sale of goods	670,126	—	670,126
Rendering of services	—	25,753	25,753
Total revenue from contracts with customers	670,126	25,753	695,879
Geographical markets			
Hong Kong	272,118	25,019	297,137
Mainland China	350,081	659	350,740
Other countries/regions	47,927	75	48,002
Total revenue from contracts with customers	670,126	25,753	695,879
Timing of revenue recognition			
Goods transferred at a point in time	670,126	—	670,126
Services transferred over time	—	25,753	25,753
Total revenue from contracts with customers	670,126	25,753	695,879

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2019

Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Revenue from contracts with customers			
External customers	670,126	25,753	695,879
Intersegment sales	163,429	—	163,429
	833,555	25,753	859,308
Intersegment adjustments and eliminations	(163,429)	—	(163,429)
Total revenue from contracts with customers	670,126	25,753	695,879

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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:

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	7,498	4,720
Rendering of services	369	306
	7,867	5,026

(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.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

Rendering of services

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

	Notes	2019 HK$'000	2018 HK$'000
Other income and gains			
Fair value gain on biological assets, net	20	—	26,553
Government grants*	29	12,053	16,746
Gain from the sale of equipment and accessories		2,447	2,374
Bank interest income		592	431
Gross rental income from investment property operating leases:			
Variable lease payments that do not depend on an index or a rate		272	—
Others		2,103	3,511
		17,467	49,615

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

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories sold		283,786	277,024
Cost of services provided		13,254	13,579
Depreciation of property, plant and equipment	13	29,370	33,379
Depreciation of right-of-use assets	15(b)	33,620	—
Recognition of prepaid land lease payments	15(a)	—	1,396
Amortisation of Intangible assets	17	3,765	3,917
Fair value loss on investment properties*	14	1,452	—
Fair value loss on financial assets at fair value through profit or loss*		1,546	—
Fair value loss/(gain) on biological assets, net*	20	19,642	(26,553)
Impairment loss on property, plant and equipment	13	19,063	—
Impairment loss on right-of-used assets	15(b)	22,380	—
Impairment loss on goodwill	16	67,346	—
Impairment loss on other intangible assets	17	54	—
Write-down of inventories to net realisable value**	19	6,286	4,399
Impairment loss on trade and bills receivables	21	5,391	772
Minimum lease payments under operating leases		—	42,421
Lease payments not included in the measurement of lease liabilities	15(d)	14,085	—
Auditors' remuneration		3,110	3,312
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		69,678	87,252
Pension scheme contributions		9,481	14,919
Equity-settled share award and share option expenses		455	996
Severance payments		1,492	5,773
		81,106	108,940
Research and development costs***		34,733	26,367
Loss on disposal of property, plant and equipment*		3,149	2,574
Foreign exchange loss, net*		2,405	5,502

* The fair value loss on investment properties, financial assets at fair value through profit or loss, and biological assets, loss on disposal of property, plant and equipment and foreign exchange loss, net was included in "Other expenses" in the consolidated statement of profit or loss for the year ended 31 December 2019. Fair value gain on biological assets was included in "Other income and gains" in 2018.

** 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 2019 and 2018.

*** HK$1,249,000 (2018: HK$648,000) disclosed in the item of "Depreciation" and HK$7,845,000 (2018: HK$8,416,000) disclosed in the item of "Employee benefit expense" were also included in the item of "Research and development costs".

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	2019 HK$'000	2018 HK$'000
Interests on bank loans and other borrowings		25,499	24,727
Interests on lease liabilities	15(d)	5,501	—
Less: Interest capitalised	13	(3,797)	(2,848)
		27,203	21,879

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	
	2019 HK$'000	2018 HK$'000
Fees	1,200	938
Other emoluments:		
Salaries, allowances and benefits in kind	3,077	3,677
Pension scheme contributions	54	54
Equity-settled share award and share option expenses	3,768	1,118
	6,899	4,849
	8,099	5,787

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

(a) Independent non-executive directors

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

2019	Fees HK$'000	Equity-settled share award expenses HK$'000	Total remuneration HK$'000
Dr. Leung Lim Kin, Simon	200	14	214
Prof. Tsui Lap Chee	200	14	214
Dr. Chan Kin Keung, Eugene	200	14	214
Mr. Ho Kwok Wah, George	200	14	214
	800	56	856

2018	Fees HK$'000	Equity-settled share award expenses HK$'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

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2019 and 2018.

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

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

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

	Fees HK$'000	Equity-settled share award and share option expenses HK$'000	Salaries, compensation, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2019					
Chief executive and executive director					
Mr. Chan Yu Ling, Abraham	—	1,444	1,440	18	2,902
Executive directors					
Mr. Chan Kin Man, Eddie	—	1,254	200	—	1,454
Dr. Tsoi Kam Biu, Alvin	—	507	821	18	1,346
Ms. Man Yee Wai, Viola	—	507	616	18	1,141
	—	2,268	1,637	36	3,941
Non-executive director					
Mr. Chow, Stanley**	400	—	—	—	400
	400	3,712	3,077	54	7,243

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

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

	Fees HK$'000	Equity-settled share award and share option expenses HK$'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 director					
Mr. Chow, Stanley**	138	—	—	—	138
	138	1,006	3,677	54	4,875

* Mr. Chan Lung Sang 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.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2018: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2018: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	3,227	3,869
Equity-settled share award and share option expenses	346	627
Pension scheme contributions	54	54
	3,627	4,550

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	
	2019	2018
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	2	3
	3	4

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 profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. U.S. and Japan profits taxes have been provided at the rates of 24% (2018: 24%) and 23.2% (2018: 23.2%) on the estimated assessable profits arising in U.S. and Japan, respectively during the years ended 31 December 2019 and 2018. 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%.

10. INCOME TAX (continued)

According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) Chinese Medicine 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 2019 and the preferential income tax rate was 0%.

	2019 HK$'000	2018 HK$'000
Current	7,182	6,203
Deferred (note 30)	3,926	(478)
Total tax charge for the year	11,108	5,725

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:

2019

	Mainland China		Hong Kong		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(102,494)		(36,003)		(77,653)		(216,150)	
Tax at the statutory tax rates	(25,624)	25.0	(5,940)	16.5	(688)	0.9	(32,252)	14.9
Lower tax rate enacted by local authority	941	(0.9)	—	—	—	—	941	(0.4)
Tax waiver	—	—	(185)	0.5	—	—	(185)	0.1
Income not subject to tax	—	—	(119)	0.3	—	—	(119)	0.1
Tax incentive on eligible expenses	(831)	0.8	—	—	—	—	(831)	0.4
Expenses not deductible for tax	426	(0.4)	164	(0.5)	—	—	590	(0.3)
Tax losses utilised from previous years	—	—	(430)	1.2	—	—	(430)	0.2
Write-off of deferred tax assets recognised in previous years	—	—	8,695	(24.2)	—	—	8,695	(4.0)
Tax losses not recognised	25,077	(24.5)	8,362	(23.2)	1,260	(1.6)	34,699	(16.1)
Tax charge at the Group's effective rate	(11)	(0.0)	10,547	(29.3)	572	(0.7)	11,108	(5.2)

10. INCOME TAX (continued)

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.	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

11. DIVIDENDS

No dividend was proposed for the years ended 31 December 2019 and 2018.

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

	2019	2018 (restated)
Earnings/(loss) per share attributable to ordinary equity holders of the parent — Basic (HK cents)	**(87.16)**	8.16
— Diluted (HK cents)	**(87.16)**	8.11

(a) Basic

Basic earnings/(loss) 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 2019 excluding ordinary shares purchased by the Group and held for the share award scheme (note 32(b)).

	2019	2018 (restated)
Profit/(loss) attributable to ordinary equity holders of the parent (HK$'000)	**(227,258)**	20,806
Weighted average number of ordinary shares in issue	**260,743,005**	255,009,658
Basic earnings/(loss) per share (expressed in HK cents per share)	**(87.16)**	8.16

The calculation of the weighted average number of ordinary shares amounting to 260,743,005 (2018: 255,009,658) in issue for the year ended 31 December 2019 is as follows:

	Notes	2019	2018 (restated)
Number of issued shares on 1 January	31	**247,717,920**	247,717,920
Adjustment for shares ("Award Shares") held for share award scheme	32(b)	**(2,338,685)**	(2,736,205)
Effect of capitalisation issue on 2 September 2019	31	**5,110,370**	—
Effect of rights issue on 2 March 2020	43	**10,253,400**	10,027,943
Weighted average number of ordinary shares		**260,743,005**	255,009,658

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

(b) Diluted

Diluted earnings/(losses) 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 the Award Shares. A calculation is done to determine the number of shares that could have been issued by exercising the right of the Award Shares under the Award Scheme.

	Notes	2019	2018 (restated)
Profit/(loss) attributable to the ordinary equity holders of the parent (HK$'000)		**(227,258)**	20,806
Weighted average number of ordinary shares in issue during the year		**260,743,005**	255,009,658
Adjustment for Award Shares	32(b)	**—***	1,527,260
Effect of rights issue on 2 March 2020	43	**—**	62,516
Weighted average number of ordinary shares for diluted earnings per share calculation		**260,743,005**	256,599,434
Diluted earnings/(loss) per share (expressed in HK cents per share)		**(87.16)**	8.11

* Because the diluted loss per share amount is increased when taking the Award Shares into account, the Award Shares had an anti-dilutive effect on the basic loss per share the year ended 31 December 2019 and were ignored in the calculation of diluted loss per share during the year ended 31 December 2019.

The Group also had no potentially dilutive ordinary shares in issue for share options during the year ended 31 December 2019 as its excise price is higher than the market price of the Group's shares as at the end of the reporting period.

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and Buildings HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2019								
At 1 January 2019 (restated):								
Cost		122,272	49,749	119,280	31,770	7,074	65,230	395,375
Accumulated depreciation		(13,499)	(22,686)	(65,719)	(20,187)	(4,632)	—	(126,723)
Net carrying amount		108,773	27,063	53,561	11,583	2,442	65,230	268,652
At 31 December 2018, net of accumulated depreciation		108,773	29,167	72,499	14,234	4,773	65,230	294,676
Effect of adoption of HKFRS 16		—	(2,104)	(18,938)	(2,651)	(2,331)	—	(26,024)
At 1 January 2019 (restated)		108,773	27,063	53,561	11,583	2,442	65,230	268,652
Additions		3,295	7,047	1,350	5,363	—	16,156	33,211
Interest capitalised	7	—	—	—	—	—	3,797	3,797
Transfer to investment properties	14	(9,119)	—	—	—	—	—	(9,119)
Disposals		—	(2,921)	(89)	(84)	—	(43)	(3,137)
Depreciation provided during the year	6	(4,731)	(12,203)	(6,225)	(5,314)	(897)	—	(29,370)
Impairment	6	—	(17,045)	—	(137)	—	(1,881)	(19,063)
Transfers		4,086	2,437	1,720	120	—	(8,363)	—
Exchange realignment		(2,038)	(185)	(1,931)	(238)	(34)	(1,189)	(5,615)
At 31 December 2019		100,266	4,193	48,386	11,293	1,511	73,707	239,356
At 31 December 2019:								
Cost		118,636	51,367	124,212	37,142	7,250	81,160	419,767
Accumulated depreciation and impairment		(18,370)	(47,174)	(75,826)	(25,849)	(5,739)	(7,453)	(180,411)
Net carrying amount		100,266	4,193	48,386	11,293	1,511	73,707	239,356

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Notes	Land and buildings HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
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	7	—	—	—	—	—	2,848	2,848
Disposals		—	(2,487)	(58)	(89)	—	—	(2,634)
Depreciation provided during the year	6	(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

As at 31 December 2019, certain of the Group's buildings, machinery and equipment and office equipment and furniture with an aggregate net carrying amount of approximately HK$182,374,000 (2018: HK$169,617,000) were pledged to secure bank loans granted to the Group (note 26).

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

During the year in 2019, impairments of HK$19,063,000 (2018: nil) were provided in respect of the leasehold improvements, office equipment and furniture and construction in progress with carrying value in aggregate of HK$19,063,000 (2018: nil). These assets were all related to the Group's clinics or construction projects whose operation or constructions have been suspended considering the unfavorable market conditions in recent times. By taking into account the fact that these assets would not be economically viable for their remaining life and there was no identified alternative usage for them, the directors of the Group assessed the recoverable amount of these assets were nil and made full provision on their carrying value.

14. INVESTMENT PROPERTIES

	Notes	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January		—	—
Transfer from owner-occupied property	13	9,119	—
Loss from a fair value adjustment	6	(1,452)	—
Exchange realignment		(110)	—
Carrying amount at 31 December		7,557	—

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

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

Fair value hierarchy

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

	Fair value measurement as at 31 December 2019 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	—	7,557	—	7,557

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 to 30 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery generally have lease terms between 3 and 5 years, while motor vehicles generally have lease terms between 2 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) Prepaid land lease payments (before 1 January 2019)

	Note	2018 HK$'000
Carrying amount at 1 January		49,932
Recognised during the year	6	(1,396)
Exchange realignment		(1,358)
Carrying amount at 31 December		47,178
Current portion included in prepayments, other receivables and other assets		(1,556)
Non-current portion		45,622

As at 31 December 2018, certain of the Group's leasehold land with a net carrying amount of approximately HK$24,916,000 were pledged to secure bank loans granted to the Group (note 26).

15. LEASES (continued)

The Group as a lessee (continued)

(b) Right-of-use assets

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

	Note	Land HK$'000	Building HK$'000	Machinery and equipment HK$'000	Total HK$'000
As at 1 January 2019		47,178	51,580	23,920	122,678
Additions		27,052	29,526	1,113	57,691
Depreciation charge	6	(1,181)	(26,355)	(6,084)	(33,620)
Impairment	6	—	(22,380)	—	(22,380)
Exchange realignment		(1,781)	(828)	(643)	(3,252)
As at 31 December 2019		71,268	31,543	18,306	121,117

As at 31 December 2019, certain of the Group's right-of-use assets with a carrying amount of approximately HK$80,099,000 (2018: nil) were pledged to secure bank loans granted to the Group (note 26).

During the year in 2019, impairments of HK$22,380,000 (2018: nil) were provided in respect of the Group's right-of-use assets with carrying amount of HK$22,380,000 (2018: nil). These assets were all related to the Group's clinics whose operation have been or to be suspended considering the unfavorable market conditions in recent times. By taking into account the fact that these assets would not be economically viable for their remaining life and there was no identified alternative usage for them, the directors of the Group assessed the recoverable amount of these assets were nil and made full provision on their carrying value.

15. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

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

	Note	2019 Lease liabilities HK$'000
Carrying amount at 1 January		73,598
New leases		29,173
Accretion of interest recognised during the year	7	5,501
Payments		(36,220)
Exchange realignment		(1,516)
Carrying amount at 31 December		70,536
Analysed into:		
Current portion		28,030
Non-current portion		42,506

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

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

	Note	2019 HK$'000
Interest on lease liabilities		5,501
Depreciation charge of right-of-use assets		37,956
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	6	10,223
Expense relating to leases of low-value assets (included in administrative expenses)	6	3,862
Total amount recognised in profit or loss		57,542

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 34(c) and 35, respectively, to the financial statements.

15. LEASES (continued)

The Group as a lessor

The Group leases its investment properties (note 15) consisting of two commercial properties under operating lease arrangements. Rental income recognised by the Group during the year 2019 was HK$272,000 (2018: nil), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 HK$'000
Within one year	395
After one year but within two years	414
After two years but within three years	435
After three years but within four years	375
After four years but within five years	135
	1,754

16. GOODWILL

	Note	2019 HK$'000	2018 HK$'000
At 1 January		155,685	155,685
Impairment recognised during the year	6	(67,346)	—
At 31 December		88,339	155,685

Impairment testing of goodwill

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

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

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

	2019 HK$'000	2018 HK$'000
Plantation CGU	**67,346**	134,692
Chinese herbal products CGU	**13,705**	13,705
SODX CGU	**7,288**	7,288
	88,339	155,685

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

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

	31 December 2019		
	Plantation CGU	Chinese herbal products CGU	SODX CGU
Compound annual growth rate within the Budget Period	**10.7%**	**4%**	**3%**
Growth rate to extrapolate cash flows beyond the Budget Period	**3%**	**2.0%**	**0.8%**
Budget gross profit margin	**10.0%~68.2%**	**55.9%**	**45.2%**
Pre-tax discount rate	**15.0%**	**18.4%**	**11.7%**

	31 December 2018		
	Plantation CGU	Chinese herbal products CGU	SODX CGU
Compound annual growth rate within the Budget Period	21.5%	4%	3%
Growth rate to extrapolate cash flows beyond the Budget Period	2.7%	2.0%	1.1%
Budget gross profit margin	15.0%~71.8%	57.7%	45.4%
Pre-tax discount rate	15.0%	21.1%	12.0%

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Assumptions were used in the value in use calculation of each CGU as at 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

Compound annual growth rate within the Budget Period — The compound annual growth rate within the Budget Period is estimated based on the historical sales data and market outlook perceived by management.

Growth rate to extrapolate cash flows beyond the Budget Period — The growth rates used to extrapolate the cash flows beyond the Budget Period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

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

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

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

The values assigned to above key assumptions are consistent with external information sources. In the opinion of the directors of the Company, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of each CGU to exceed its recoverable amount.

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Impairment of goodwill in Plantation CGU

There were no significant changes in the growth rate to extrapolate cash flows beyond the Budget Period and pre-tax discount rate in the preparation of the cash flow projections of Plantation CGU as at 31 December 2019 as compared with those adopted as at 31 December 2018, except for below changes in estimations during the year 2019 considering the current market condition and the Group's most recent business plans:

1) the estimations regarding the compound annual growth rate within the Budget Period was decreased since the management of the Group expected that the revenue growth for TCM decoction piece and Chinese raw herb products would slow down by taking into account recent keen market competitions along with the ongoing de-concentration in this industry and declining trend in the market prices of Chinese raw herbs products; and

2) the estimations regarding the budget gross profit margin was decreased as the Group would incur additional cost in the Budget Period to enrich its product portfolio (including seedling products) and implement more flexible pricing policies so as to stay competitive.

Therefore, the management of the Group made provision for impairment of goodwill of HK$67,346,000 as at 31 December 2019 according to the revised the projected cash flows in the Plantation CGU.

17. OTHER INTANGIBLE ASSETS

	Note	Trademarks HK$'000	Patents HK$'000	Licences HK$'000	Software HK$'000	Total HK$'000
31 December 2019						
At 31 December 2018 and at 1 January 2019:						
Cost		31,469	777	1,281	18,416	51,943
Accumulated amortisation		(8,201)	(529)	(1,281)	(5,742)	(15,753)
Net carrying amount		23,268	248	—	12,674	36,190
Cost at 1 January 2019, net of accumulated amortisation		23,268	248	—	12,674	36,190
Additions		1,668	—	—	346	2,014
Amortisation provided during the year	6	(1,965)	(160)	—	(1,640)	(3,765)
Impairment during the year	6	—	—	—	(54)	(54)
Exchange realignment		—	—	—	(110)	(110)
At 31 December 2019		22,971	88	—	11,216	34,275
At 31 December 2019:						
Cost		33,100	498	1,281	18,743	53,622
Accumulated amortisation and impairment		(10,129)	(410)	(1,281)	(7,527)	(19,347)
Net carrying amount		22,971	88	—	11,216	34,275

17. OTHER INTANGIBLE ASSETS (continued)

	Note	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	6	(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

During the year in 2019, impairments of HK$54,000 (2018: nil) were provided in respect of the Group's right-of-use assets with carrying amount of HK$54,000 (2018: nil). These assets were all related to the Group's clinics whose operation have been suspended considering the unfavorable market conditions in recent times. By taking into account the fact that these assets would not be economically viable for their remaining life and there was no identified alternative usage for them, the directors of the Group assessed the recoverable amount of these assets were nil and made full provision on their carrying value.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Life insurance policies, at fair value	**18,195**	10,741

The Group financial assets at fair value through profit or loss represented the three(2018: two) life insurance policies to insure an executive director as at 31 December 2019. 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 2019 and 2018, the Group's life insurance policies were pledged as security for bank facilities granted to the Group. Further details are contained in note 26 to the financial statements.

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

19. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**73,855**	84,686
Work in progress	**32,599**	45,671
Finished goods	**101,882**	89,752
	208,336	220,109
Less: Provision	**(7,448)**	(6,076)
	200,888	214,033

For the year ended 31 December 2019, the write-down of inventories recognised at cost of sales amounted to HK$6,286,000 (2018: HK$4,399,000).

At 31 December 2019, the Group's inventories with a carrying amount of HK$39,113,000 (2018: HK$40,317,000) were pledged as security for the loans granted to the Group (note 26).

20. BIOLOGICAL ASSETS

	Note	2019 HK$'000	2018 HK$'000
As at 1 January		**73,847**	37,147
Addition during the year		**41,438**	26,705
Fair value (loss)/gain on biological assets, net	6	**(19,642)**	26,553
Harvest during the year		**(31,057)**	(14,380)
Exchange realignment		**(2,073)**	(2,178)
		62,513	73,847
Portion classified as non-current portion		**(52,436)**	(28,386)
Current portion		**10,077**	45,461

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$31,057,000 (2018: HK$14,380,000) during the year ended 31 December 2019.

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.

A significant increase or decrease in the expected prices and price growth rate and the estimated yields would result in a significant increase or decrease in the fair value of the biological assets. A significant increase or decrease in the discount rate in isolation would result in a significant decrease or increase in the fair value of the biological assets. Generally, a change in the assumption made for the estimated price of Chinese medicinal materials is accompanied by a directionally similar change in the price growth rate of raw Chinese herbs per annum and the discount rate and an opposite change in the estimated production volume.

21. TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**230,766**	285,379
Bills receivable	**17,234**	17,514
	248,000	302,893
Less: Impairment of trade and bills receivables	**(17,266)**	(12,236)
	230,734	290,657

The Group's trading terms with its customers are mainly on credit, except for new customers, where payments in advance is normally required. The credit period is generally one to six months, extending up to longer periods for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at 31 December 2019 and 2018, based on the invoice date and net of loss allowance, is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 month	**89,850**	103,620
1 to 3 months	**48,215**	58,895
3 to 6 months	**37,272**	44,861
6 months to 1 year	**31,764**	53,851
Over 1 year	**23,633**	29,430
	230,734	290,657

21. TRADE AND BILLS RECEIVABLES (continued)

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

	Note	2019 HK$'000	2018 HK$'000
At beginning of year		12,236	11,813
Impairment losses	6	5,391	772
Exchange realignment		(361)	(349)
At end of year		17,266	12,236

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

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

As at 31 December 2019

Group A

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.13%	3.30%	18.24%	100.00%	4.77%
Gross carrying amount (HK$'000)	75,210	52,580	11,276	2,879	141,945
Expected credit losses (HK$'000)	95	1,736	2,056	2,879	6,766

Group B

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.61%	6.54%	9.99%	100.00%	28.79%
Gross carrying amount (HK$'000)	15,566	5,987	1,752	8,492	31,797
Expected credit losses (HK$'000)	94	392	175	8,492	9,153

21. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2019 (continued)

Group C

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Expected credit loss rate	0.00%	9.02%	87.12%	100.00%	3.20%
Gross carrying amount (HK$'000)	17,043	487	221	342	18,093
Expected credit losses (HK$'000)	—	44	193	342	579

Group D

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Expected credit loss rate	0.25%	2.50%	15.02%	100.00%	1.37%
Gross carrying amount (HK$'000)	45,254	9,653	992	266	56,165
Expected credit losses (HK$'000)	112	241	149	266	768

Total

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Gross carrying amount (HK$'000)	153,073	68,707	14,241	11,979	248,000
Expected credit losses (HK$'000)	301	2,413	2,573	11,979	17,266

As at 31 December 2018

Group A

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Expected credit loss rate	0.06%	1.72%	18.49%	100.0%	2.71%
Gross carrying amount (HK$'000)	119,994	37,335	3,432	3,083	163,844
Expected credit losses (HK$'000)	72	642	635	3,083	4,432

21. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2018 (continued)

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

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$'000)	206,105	71,189	14,847	10,752	302,893
Expected credit losses (HK$'000)	72	663	749	10,752	12,236

At 31 December 2019, trade receivables of HK$62,727,000 (2018: HK$92,693,000) were pledged as security for the Group's bank loans (note 26).

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 HK$'000	2018 HK$'000
Prepayments	79,992	47,425
Receivables from third party agents	—	790
Right-of-return assets	2,177	2,213
Deposits and other receivables	31,848	29,413
	114,017	79,841
Less: Impairment allowance	(236)	(243)
	113,781	79,598
Portion classified as non-current	(50,902)	(13,196)
Current portion	62,879	66,402

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

	2019 HK$'000	2018 HK$'000
At 1 January	243	250
Exchange realignment	(7)	(7)
At 31 December	236	243

The above provision for impairment of other receivables was a provision for individually impaired other receivables of HK$236,000 (2018: HK$243,000) with a carrying amount before provision of HK$236,000 (2018: 243,000) as at year ended 31 December 2019. The Group does not hold any collateral or other credit enhancements over these balances.

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

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

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 HK$'000	2018 HK$'000
Cash and bank balances	68,009	104,884
Time deposits	25,115	9,000
	93,124	113,884
Less: Pledged time deposits for bank loans (note 26)	(25,115)	(9,000)
Cash and cash equivalents	68,009	104,884
Denominated in RMB	41,828	77,959
Denominated in HK$	10,448	12,591
Denominated in US$	6,950	5,038
Denominated in JPY	8,715	8,403
Denominated in AU$	12	772
Denominated in CAD	56	121
Cash and cash equivalents	68,009	104,884

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.

24. TRADE AND BILLS PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**146,533**	127,682
Bills payables	**32,452**	11,519
	178,985	139,201

An ageing analysis of the trade and bills payables as at 31 December 2019 and 2018, based on the invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
Within 1 month	**61,380**	41,106
1 to 2 months	**26,004**	5,939
2 to 3 months	**10,971**	14,007
Over 3 months	**80,630**	78,149
	178,985	139,201

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

25. OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK$'000	2018 HK$'000
Other payables	(a)	**42,995**	36,079
Accruals		**34,025**	20,755
Contract liabilities	(b)	**14,041**	7,867
Refund liabilities		**6,224**	6,725
Retention payable	(c)	**30,173**	—
		127,458	71,426
Portion classified as non-current	(c)	**(30,173)**	—
Current portion		**97,285**	71,426

Notes:

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

(b) Details of contract liabilities are as follows:

	31 December 2019 HK$'000	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers			
Sale of goods	**13,786**	7,498	4,720
Rendering of services	**255**	369	306
Total contract liabilities	**14,041**	7,867	5,026

Contract liabilities include short-term advances received for the sale of goods and rendering of services. The increase in contract liabilities in 2019 was mainly due to the increase in short-term advances received from customers in relation to the sale of goods and rendering of services.

(c) The non-current portion of other payables mainly represents the retention money held by the Group with respect to the Group's plants and properties under construction which will be paid in a period over twelve months from 31 December 2019.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Finance lease payable	—	—	—	10.75	2019	7,796
Bank overdraft — secured (a)	3.75–4.25	On demand	9,592	4.00–4.13	On demand	6,478
Bank overdraft — unsecured (a)	4.75–5.25	On demand	7,988	5.00, 5.13	On demand	7,890
Bank loans — secured	1.75–6.28	On demand	94,890	0.85–5.70	2019	138,479
Bank loans and other borrowings-secured (a)	0.85–6.17	2020	90,984	2.00–4.57	On demand	72,574
Bank loans — unsecured (a)	3.10–5.50	On demand	55,088	2.60–6.83	On demand	119,083
Bank loans — unsecured	4.35–9.00	2020	53,740	4.66	2019	1,728
			312,282			354,028
Non-current						
Finance lease payable	—	—	—	10.75	2021	16,326
Bank loans and other borrowings — secured	0.85–8.00	2021–2029	58,369	0.85–8.00	2020–2028	107,115
Bank loans — unsecured	4.50–6.18	2021–2027	85,346	4.66–6.18	2021, 2022	41,008
			143,715			164,449
			455,997			518,477

	2019 HK$'000	2018 HK$'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	312,282	354,028
In the second year	60,659	55,044
In the third to fifth years, inclusive	37,870	107,696
Beyond five years	45,186	1,709
	455,997	518,477

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

Interest-bearing bank and other borrowings are denominated in:

	2019 HK$'000	2018 HK$'000
HK$	**163,861**	253,128
RMB	**281,732**	254,593
JPY	**3,272**	3,624
US$	**7,132**	7,132
	455,997	518,477

(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$167,558,000 (2018: HK$206,025,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$27,150,000 (2018: HK$53,154,000) that is repayable after one year from the end of 2019 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 2019, the Group's bank loans amounting to approximately HK$150,208,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since 1) bank loans amounting to HK$27,150,000 payable after one year from the end of 2019 included the repayment on demand clause and have already been classified as current liabilities as mentioned in note 26(a); and 2) bank loans amounting HK$123,058,000 would become mature within 12 months and included repayable on demand clause as mentioned above in 26(a) which have already been classified as current liabilities.

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 current liabilities as mentioned in note 26(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.

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

(c) As at 31 December 2019, the Group's facilities of bank and other borrowings amounted to HK$536,168,000 (2018: HK$534,084,000), of which HK$455,997,000 (2018: HK$494,355,000) had been utilised.

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

		Carrying value	
	Notes	2019 HK$'000	2018 HK$'000
Property, plant and equipment	13	182,374	169,617
Right-of-use assets/prepaid land lease payment	15	80,099	24,916
Financial assets at fair value through profit or loss	18	18,195	10,741
Inventories	19	39,113	40,317
Trade and bills receivables	21	62,727	92,693
Pledged bank deposits	23	25,115	9,000
		407,623	347,284

27. FINANCE LEASE PAYABLES

The Group leased certain of its machineries and equipment and these leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019. 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).

The following 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

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

	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'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 26)	(7,796)	
Non-current portion (note 26)	16,326	

28. LOANS FROM A DIRECTOR

	2019 HK$'000	2018 HK$'000
Loans from a Director	**15,000**	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.

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.

29. GOVERNMENT GRANTS

	2019 HK$'000	2018 HK$'000
At 1 January	**5,552**	7,005
Government grants received during the year	**10,329**	15,450
Amounts released to the statement of profit or loss (note 5)	**(12,053)**	(16,746)
Exchange realignment	**(142)**	(157)
At 31 December	**3,686**	5,552
Portion classified as current liabilities	**(1,648)**	(2,358)
Non-current portion	**2,038**	3,194

30. DEFERRED TAX

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

Deferred tax assets

	2019				
	Tax loss available for offsetting against future taxable profits HK$'000	Government grants HK$'000	Unrealised profit on inventories HK$'000	Accrual and provisions HK$'000	Total HK$'000
At 1 January 2019	15,325	832	757	3,019	19,933
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	(8,695)	(279)	673	4,494	(3,807)
Exchange realignment	(38)	—	—	(172)	(210)
Gross deferred tax assets at 31 December 2019	6,592	553	1,430	7,341	15,916

	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	Accrual and provisions HK$'000	Total HK$'000
At 1 January 2018	(155)	13,474	952	2,522	2,890	19,683
Deferred tax (charged)/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

30. DEFERRED TAX (continued)

Deferred tax liabilities

	2019 Depreciation and amortisation allowance in excess of related depreciation and amortisation HK$'000
At 1 January 2019	6,066
Deferred tax charged to the statement of profit or loss during the year (note 10)	119
Exchange realignment	(25)
Gross deferred tax liabilities at 31 December 2019	6,160

	2018 Depreciation and amortisation allowance in excess of related depreciation and amortisation HK$'000
At 1 January 2018	6,163
Deferred tax 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

30. 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:

	2019 HK$'000	2018 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	12,363	16,383
Net deferred tax liabilities recognised in the consolidated statement of financial position	(2,607)	(2,516)
	9,756	13,867

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 2019, 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$234,762,000 (2018: HK$239,738,000).

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

31. SHARE CAPITAL

Shares

	2019 HK$'000
Authorised: 50,000,000,000 ordinary shares of US$0.1 (HK$0.775) each	**38,750,000**
Issued and fully paid: 263,261,961 ordinary shares of US$0.1 (HK$0.775) each	**204,028**

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

31.SHARE CAPITAL (continued)

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

	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 32(b))	—	—	139	139
At 31 December 2018	247,717,920	191,981	206,811	398,792

	2019			
	Number of shares in issue	**Share capital HK$'000**	**Share premium account HK$'000**	**Total HK$'000**
At 1 January 2019	**247,717,920**	**191,981**	**206,811**	**398,792**
Effect of capitalisation issue on 2 September 2019 (note a)	**15,544,041**	**12,047**	**17,953**	**30,000**
Share issue expenses	**—**	**—**	**(361)**	**(361)**
Transfer of vested shares under Share Award Scheme (note 32(b))	**—**	**—**	**81**	**81**
At 31 December 2019	**263,261,961**	**204,028**	**224,484**	**428,512**

(a) On 2 September 2019, 15,544,041 new shares of US$0.1(HK$0.775) each were issued at a price of HK$1.93 per share to Mr. Abraham Chan for capitalising the corresponding Group's loans due from him amounting to HK$30,000,000 (the "Capitalisation Issue"). The proceeds of HK$12,047,000 representing the par value were credited to the Company's share capital and the remaining proceeds of HK$17,953,000 (before deduction of share issue expenses) were credited to the share premium account. Further details about the Capitalisation Issue are set out in the announcement dated 12 June 2019 and circular dated 24 July 2019 issued by the Company.

32. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share option scheme

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

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

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

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

On 9 May 2019 (the "Date of Grant"), the board of the directors of the Group has resolved to grant share options to certain directors and employees of the Company, entitling them to subscribe for a total of 6,376,000 ordinary shares of the Company (the "Granted Share Options").

32. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) Share option scheme (continued)

The exercise prices and exercise periods of the Granted Share Options outstanding as at 31 December 2019 are as follows:

Number of options	Exercise price	Vesting date	Exercise period
2,975,500	HK$2.4*	10 May 2020	From vesting date to 9 May 2029
2,975,500	HK$2.4*	10 May 2021	From vesting date to 9 May 2029
212,500	HK$2.4*	10 May 2022	From vesting date to 9 May 2029
212,500	HK$2.4*	10 May 2023	From vesting date to 9 May 2029
6,376,000*			

* The exercise price and number of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Details of the share option expenses during the year ended 31 December 2019 is listed as below:

	2019 HK$'000
Share option expenses recognised during the year*	3,645
Less: Included in directors' remuneration (note 8)	(3,290)
Employee benefit expenses	355

32. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(a) Share option scheme (continued)

The fair value of the share options granted during the year was HK$7,893,000, of which the Group recognised a share option expense of HK$3,645,000 during the year ended 31 December 2019.

The fair value of equity-settled share options granted during the year was estimated as at the Date of Grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	31 December 2019
Dividend yield (%)	0.00
Expected volatility (%)	44.38
Historical volatility (%)	44.38
Risk-free interest rate (%)	2.24
Expected life of options (year)	10
Weighted average share price (HK$ per share)	2.4

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

As at 31 December 2019, the Company had 6,376,000 share options outstanding under the Scheme, which represented approximately 2.4% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,376,000 additional ordinary shares of the Company and additional equity amount of HK$15,302,000 (before share issue expenses).

As at the date of approval of these financial statements, the Company had 6,643,700 share options outstanding under the Scheme after the adjustments as result of completion of the rights issue on 2 March 2020 as set out in note 43 to these financial statements, which represented approximately 1.7% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 6,643,700 additional ordinary shares of the Company and additional equity amount of HK$15,302,000 (before share issue expenses).

32. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

(b) Shares held for the share award scheme

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

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

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

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

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

Shareholdings of Share Award Scheme Trust

As at 31 December 2019, the Share Award Scheme Trust held 2,206,000 (31 December 2018: 2,496,000) shares of the Company. During the year ended 31 December 2019, no share (2018: nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 290,000 (2018: 525,000) shares were vested on 16 June 2019.

Granted Award shares

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

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

32. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (continued)

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

Granted Award shares (continued)

Two of the Eligible Award Participants, who were granted Award Shares on 16 June 2017, have resigned during the year ended 30 June 2019, and therefore their 210,000 unvested shares of Award Shares were forfeited.

Summary of the Award Shares granted is as follows:

Date of Grant	Number of outstanding Awarded Shares as at 1 January 2019	Fair value HK$'000	Vesting Date	Number of Awarded Shares: Vested during the current period	Forfeited during the current period	Outstanding as at 31 December 2019
16 June 2017	350,000	1,305	16 June 2019	(290,000)	(60,000)	—
16 June 2017	350,000	1,305	16 June 2020	—	(60,000)	290,000
16 June 2017	350,000	1,305	16 June 2021	—	(60,000)	290,000
16 June 2017	175,000	653	16 June 2022	—	(30,000)	145,000
	1,225,000	4,568		(290,000)	(210,000)	725,000

Details of the equity-settled share award expenses of the Group during the year ended 31 December 2019 are listed as below:

	2019 HK$'000	2018 HK$'000
Gross amount of recognition of share award expenses	1,190	2,725
Forfeited during the year	(612)	(611)
Net share award expenses recognised during the year	578	2,114
Less: Included in directors' remuneration (note 8)	(478)	(1,185)
Employee benefit expenses	100	929

33. 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.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year 2019, harvested raw Chinese herbs of HK$26,057,000 were transferred to inventories (2018: HK$14,380,000).

During the year 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$29,173,000 and HK$29,173,000, respectively, in respect of lease arrangements for land and buildings, machinery and equipment (2018: nil).

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities:

	Lease liabilities HK$'000	Interest Payable HK$'000	Loans from a director HK$'000	Bank loan and other borrowings HK$'000
At 31 December 2018	—	2,147	30,000	518,477
Effect of adoption of HKFRS 16	73,598	—	—	(24,122)
At 1 January 2019 (restated)	73,598	2,147	30,000	494,355
Changes from net financing cash flows	(36,220)	(23,764)	15,000	(33,901)
Interest expense	5,501	25,499	—	—
New leases	29,173	—	—	—
Capitalisation issue on 2 September 2019 (note 31)	—	—	(30,000)	—
Exchange realignment	(1,516)	—	—	(4,457)
At 31 December 2019	70,536	3,882	15,000	455,997

	Interest Payable HK$'000	Loans from a director HK$'000	Bank loan and other borrowings HK$'000
At 1 January 2018	466	—	548,021
Changes from net financing cash flows	(23,334)	30,000	(34,690)
Interest expense	24,727	—	—
Exchange realignment	288	—	5,146
At 31 December 2018	2,147	30,000	518,477

(c) Total cash outflow for leases

The cash outflow for leases were all included in the financing activities in the Group's consolidated statement of cash flows for the year ended 31 December 2019.

35. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:		
Buildings	**26,579**	30,119
Plant and machinery	**8,142**	20,478
	34,721	50,597

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its warehouse, clinics, office buildings and office equipment under operating lease arrangements. Leases for warehouse, clinics, office buildings and office equipment were 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
Within one year	29,270
In the second to fifth years, inclusive	35,440
After five years	11,545
	76,255

36. CONTINGENT LIABILITIES

An action was brought against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedling products) (the "Agreements"). Since the plaintiff of the action had not yet provided the evidence regarding the aforesaid claims, the Directors of the Group have made provision of HK$4.0 million for the probability-weighted outcomes might arise from the action (including related legal and other costs) according to the advice from the Group's legal counsel and available evidence on hand. The Company would vigorously contest the action and the claims made against the Group.

37. RELATED PARTY TRANSACTIONS

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

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

Name of related parties	Relationship
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Director of the Company
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Director of the Company
Edtoma Corporate Services Limited ("Edtoma")	Company significantly influenced by Mr. Eddie Chan
CWCC Consultancy Limited ("CWCC")	Company significantly influenced by Mr. Eddie Chan

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

	Notes	2019 HK$'000	2018 HK$'000
Loans from a director	(i)	**15,000**	50,000
Repayment of a loan from a director	(i)	**—**	20,000
Interest expense to a director	(i)	**1,420**	1,040
Capitalisation of loans from a director	(ii)	**30,000**	—
Professional service fees	(iii)	**503**	474
		46,923	71,514

37. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions during the reporting period are as follows (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 2019, the Group draw down HK$15 million (2018: 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) On 2 September 2019, 15,544,041 new shares of US$0.1(HK$0.775) each were issued at a price of HK$1.93 per share to Mr. Abraham Chan for capitalising the corresponding Group's loans due from him amounting to HK$30,000,000 (the "Capitalisation Issue"). Further details about the Capitalisation Issue are set out in the announcement dated 12 June 2019 and circular dated 24 July 2019 issued by the Company.

(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 the Group's other suppliers.

(c) Outstanding balance with a related party:

	2019		2018	
		Maximum amount outstanding		Maximum amount outstanding
	HK$'000	HK$'000	HK$'000	HK$'000
Loans from a director:				
Mr. Abraham Chan	15,000	45,000	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:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	3,077	3,677
Equity-settled share award and share option expenses	3,712	1,006
Pension scheme contributions	54	54
	6,843	4,737

38. 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:

2019

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	18,195	—	18,195
Trade and bills receivables	—	230,734	230,734
Financial assets included in prepayments, other receivables and other assets	—	33,789	33,789
Pledged bank deposits	—	25,115	25,115
Cash and cash equivalents	—	68,009	68,009
	18,195	357,647	375,842

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	178,985
Financial liabilities included in other payables and accruals	91,160
Lease liabilities	70,536
Interest-bearing bank borrowings and other borrowings	455,997
Loans from a director	15,000
	811,678

38. 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)

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

39. TRANSFERS OF FINANCIAL ASSETS

At 31 December 2019, 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$13,560,000 (2018: HK$16,031,000). 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.

40. 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 38 were reasonably approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, trade payables, loans from a director, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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

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

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

The fair value of the Group's financial asset at fair value through profit or loss is categorised within Level 3 of the fair value hierarchy which is measured based on significant unobservable inputs and has been estimated based on the surrender value of the policy as disclosed in note 18 to the financial statements. The fair value of the insurance policy is mainly affected by its surrender value as the directors expected the other unobservable inputs such as insurance risk would not have significant impact on the fair value of the insurance policy. The surrender value of the insurance policy was obtained from the insurance company without any adjustment. The directors believe that the estimated fair value and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of the investment properties was categorised within Level 2 — significant observable inputs and has been estimated based on the policies as disclosed in note 14 to the financial statements.

The fair value of the biological assets was categorised within Level 3 — significant unobservable inputs and has been estimated based on the policies as disclosed in note 20 to the financial statements.

There were no transfers of fair value measurements during the year ended 31 December 2019.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, financial assets through profit or loss and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

41. 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

	2019 HK$'000	2018 HK$'000
If decrease by 100 basis points	2,553	4,240
If increase by 100 basis points	(2,553)	(4,240)

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 2019 and 2018 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.

	2019 HK$'000	2018 HK$'000
If RMB weakens against HK$ by 5%		
Decrease in profit before tax	14,633	4,953
If RMB strengthens against HK$ by 5%		
Increase in profit before tax	(14,633)	(4,953)
If JPY weakens against HK$ by 5%		
Decrease in profit before tax	(321)	(268)
If JPY strengthens against HK$ by 5%		
Increase in profit before tax	321	268

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

Maximum exposure and year-end staging

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

As at 31 December 2019

	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*	—	—	—	230,734	230,734
Financial assets included in prepayments, other receivables and other assets					
— Normal**	33,789	—	—	—	33,789
Pledged deposits					
— Not yet past due	25,115	—	—	—	25,115
Cash and cash equivalents					
— Not yet past due	68,009	—	—	—	68,009

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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 21 to the financial statements.

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and lease liabilities. Cash flows are being closely monitored on an ongoing basis.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2019					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	167,558	57,231	97,359	170,478	15,159	507,785
Trade and bills payables	—	176,913	2,072	—	—	178,985
Other payables	—	60,987	—	30,173	—	91,160
Lease liabilities	—	9,603	24,989	33,921	6,549	75,062
Loans from a director	15,000	—	—	—	—	15,000
	182,558	304,734	124,420	234,572	21,708	867,992

	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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Note: As at 31 December 2019, interest-bearing bank borrowings in the amount of HK$167,558,000 (2018: HK$206,025,000) 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 2019 and 2018 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
2019	157,341	63,200	101,759	170,478	15,159	507,937
2018	171,059	90,679	107,663	181,128	1,769	552,298

41. 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 2019.

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 trade and bills payables, other payables and accruals, interest-bearing bank borrowings, lease liabilities and loans from a director, less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	2019 HK$'000	2018 HK$'000
Trade and bills payables	178,985	139,201
Other payables and accruals	97,285	71,426
Interest-bearing bank and other borrowings	455,997	518,477
Lease liabilities	70,536	—
Loans from a director	15,000	30,000
Less: Cash and cash equivalents	(68,009)	(104,884)
Net debt	749,794	654,220
Equity attributable to owners of the parent	362,123	562,219
Net debt and equity attributable to owners of the parent	1,111,917	1,216,439
Gearing ratio	67%	54%

42. 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:

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Right-of-use assets	**2,311**	—
Investments in subsidiaries	**—**	—
Total non-current assets	**2,311**	—
CURRENT ASSETS		
Prepayments, deposits and other receivables	**350,750**	392,174
Cash and cash equivalents	**977**	94
Total current assets	**351,727**	392,268
CURRENT LIABILITIES		
Other payables and accruals	**2,382**	787
Interest-bearing bank and other borrowings	**3,436**	—
Lease liabilities	**1,155**	—
Total current liabilities	**6,973**	787
NET CURRENT ASSETS	**344,754**	391,481
TOTAL ASSETS LESS CURRENT LIABILITIES	**347,065**	391,481
NON-CURRENT LIABILITIES		
Lease liabilities	**1,197**	—
Total non-current liabilities	**1,197**	—
Net assets	**345,868**	391,481
EQUITY (note)		
Share capital	**204,028**	191,981
Shares held for share award scheme	**(7,200)**	(8,200)
Reserves	**149,040**	207,700
Total equity	**345,868**	391,481

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

Note:

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

	Share capital HK$'000	Share premium HK$'000	Shares held for share award scheme HK$'000	Reserve for share award and share option HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
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 expenses	—	—	—	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*	(1,493)*	391,481
At 31 December 2018 and at 1 January 2019	191,981	206,811*	(8,200)	2,382*	(1,493)*	391,481
Loss for the year	—	—	—	—	(79,475)	(79,475)
Capitalisation of loans from a director	12,047	17,953	—	—	—	30,000
Share issue expense	—	(361)	—	—	—	(361)
Recognition of equity-settled share award expenses	—	—	—	1,113	—	1,113
Forfeiting of Award Shares granted under Share Award Scheme	—	—	—	(535)	—	(535)
Transfer of vested shares under Share Award Scheme	—	81	1,000	(1,081)	—	—
Recognition of equity-settled share option expenses	—	—	—	3,645	—	3,645
At 31 December 2019	204,028	224,484 *	(7,200)	5,524*	(80,968)*	345,868

* These reserve accounts comprised the reserves of HK$149,040,000 (2018: HK$207,700,000) in the statement of financial position of the Company.

43. EVENTS AFTER THE REPORTING PERIOD

Rights Issue and adjustments to the Granted Share Options

On 2 March 2020 (the "Rights Issue Date"), 131,630,980 new right shares of US$0.1(HK$0.775) each were allotted and issued at a price of HK$0.8 per share on the basis of one new rights share for every two shares held on 6 February 2020. The proceeds of the Rights Issue of HK$102,014,000 representing the par value were credited to the Company's share capital and the remaining proceeds of HK$3,291,000 (before deduction of share issue expenses) were credited to the share premium account. Further details of the Rights Issue are set out in the prospectus dated 7 February 2020 and announcement dated 28 February 2020 issued by the Company.

As a result of the completion of the Rights Issue mentioned above, pursuant to (i) the terms and conditions of share option scheme; and (ii) Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules, the exercise price and the number of shares which may fall to be issued upon exercise of the subscription rights attaching to the granted share options immediately after the adjustments as a result of the completion of the Rights Issue were as follows:

Number of options	Exercise price	Vesting date	Exercise period
3,100,428	HK$2.3	10 May 2020	From vesting date to 9 May 2029
3,100,428	HK$2.3	10 May 2021	From vesting date to 9 May 2029
221,422	HK$2.3	10 May 2022	From vesting date to 9 May 2029
221,422	HK$2.3	10 May 2023	From vesting date to 9 May 2029
6,643,700			

Further details of the adjustments to the Granted Share Options are set out in the announcement dated 28 February 2020 issued by the Company.

43. EVENTS AFTER THE REPORTING PERIOD (continued)

Impact of the Novel Coronavirus (COVID-19) Pneumonia (the "Pandemic")

Since the outbreak of the Pandemic in the PRC, a number of provinces and cities in the PRC have taken emergency public health measures and various regulations and requirements for Pandemic prevention and controls were issued by national governments at all levels (the "Prevention Regulations"). The Group has actively responded to the Prevention Regulations and resumed the production in the PRC on 3 February 2020 with strict implemented prevention code of conducts for the Pandemic.

The outbreak of Pandemic has grown into a large-scale, multi-country Pandemic during the first quarter of 2020 producing a challenging situation for all industries and society generally. The outbreak of Pandemic is expected to have negative impact on the global economic environments as well as the Group's financial performance in 2020; however, the Group is not able to estimate the financial effect at the date of this announcement. The Group is paying continuous attention to the everchanging situation in order to respond appropriately with speed in a proactive manner.

Except for the factors mentioned above, no other significant adverse impact has been found as of the reporting date of these financial statements.

44. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

The basic and diluted earnings per share for the year ended 31 December 2018 was restated due to the retrospective adjustments with respect to the Rights Issue.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 24 March 2020.

PARTICULARS OF PROPERTIES

31 December 2019

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Group
No. 111, Level 1, Unit 2, A8, Greenland Central Plaza, Qingxiu District, Nanning, China	Clinic	Medium term lease	100%
No. A-101, Greenland Huadu International, 39 Pingle Avenue, Liangqing District, Nanning, China	Clinic	Medium term lease	100%

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**695,879**	745,503	591,566	535,986	473,900
Cost of sales	**(297,040)**	(290,603)	(195,708)	(187,182)	(168,168)
Gross profit	**398,839**	454,900	395,858	348,804	305,732
Other income and gains	**17,467**	49,615	31,162	10,796	8,212
Selling and distribution expenses	**(226,212)**	(229,995)	(191,753)	(154,380)	(140,214)
Administrative expenses	**(228,482)**	(217,026)	(206,987)	(154,001)	(119,376)
Impairment loss on property, plant and equipment	**(19,063)**	—	—	—	—
Impairment loss on right-of-use assets	**(22,380)**	—	—	—	—
Impairment loss on goodwill	**(67,346)**	—	—	—	—
Impairment loss on financial assets, net	**(5,391)**	—	—	—	—
Other expenses	**(36,379)**	(9,084)	(1,082)	(3,221)	(3,977)
Finance costs	**(27,203)**	(21,879)	(16,867)	(9,331)	(10,243)
PROFIT/(LOSS) BEFORE TAX	**(216,150)**	26,531	10,331	38,667	40,134
Tax	**(11,108)**	(5,725)	(8,442)	(6,505)	(11,676)
PROFIT/(LOSS) FOR THE YEAR	**(227,258)**	20,806	1,889	32,162	28,458
Attributable to:					
Owners of the parent	**(227,258)**	20,806	1,889	32,162	28,458

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,222,242**	1,333,103	1,293,977	860,248	697,332
TOTAL LIABILITIES	**(860,119)**	(770,884)	(744,895)	(405,743)	(227,622)
	362,123	562,219	549,082	454,505	469,710

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