



PuraPharm

PuraPharm Corporation Limited 培力控股有限公司

Stock code 股票代號 : 1498



2015 ANNUAL REPORT 年度報告





CONTENTS

Corporate Information	E1
Directors, Board Committees and Senior Management	E5
Corporate Milestones	E14
Chairman's Statement	E16
Corporate Profile	E19
Products and Services Overview	E21
Financial Highlights	E26
Management Discussion and Analysis	E27
Corporate Governance Report	E36
Report of the Directors	E50
Independent Auditors' Report	E59
Consolidated Statement of Profit or Loss	E61
Consolidated Statement of Comprehensive Income	E62
Consolidated Statement of Financial Position	E63
Consolidated Statement of Changes in Equity	E65
Consolidated Statement of Cash Flows	E67
Notes to Financial Statements	E69
Four Year Financial Summary	E150

CORPORATE INFORMATION



EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Chan Kin Man, Eddie

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

Mr. Ho Kwok Wah, George (Chairman)
Mr. Chan Kin Man, Eddie
Dr. Leung Lim Kin, Simon

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

SCIENTIFIC ADVISORY COMMITTEE

Prof. Paul Vanhoutte (Chairman)
Prof. Rudolf Bauer
Mr. Chan Yu Ling, Abraham
Prof. Bill Chan
Prof. Peter Hylands
Prof. Liang Song Ming
Mr. Lin Jinn Sin
Prof. Bruce Robinson

COMPANY SECRETARY

Mr. Cheng Hok Kai, Frederick (FCPA)

AUTHORIZED REPRESENTATIVES

Mr. Cheng Hok Kai, Frederick
Mr. Leung Chin Man

INVESTOR RELATIONS

Mr. Cheng Hok Kai, Frederick

AUDITOR

Ernst & Young
Certified Public Accountants



LEGAL ADVISOR

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

COMPLIANCE ADVISOR

Southwest Securities (HK) Capital Limited

REGISTERED OFFICE

Offshore Incorporations (Cayman) Limited
Floor 4, Willow House
Cricket Square, P O Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Industrial Bank Co., Ltd., Nanning Xingcheng
branch

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

Appleby Trust (Cayman) Ltd.
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

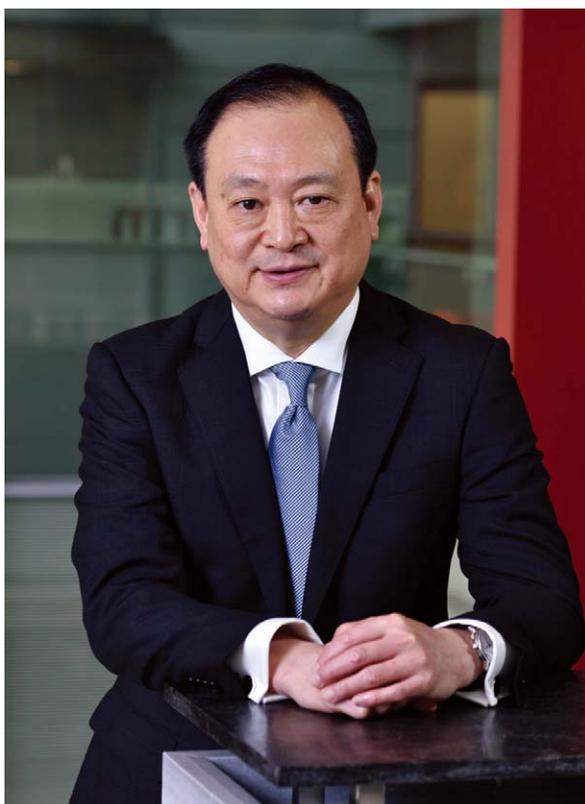
Board of Directors

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 55, 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 17 years of extensive experience in Chinese medicine and healthcare products. He is a member of the Chinese Medicine Development Committee. He is also an Independent Non-Executive Director of Belle International Holdings Limited (stock code: 1880). Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's Degree in Applied Sciences in 1982. He was accredited as a chartered engineer in the United Kingdom in 1989 and was accredited as a professional engineer in Ontario, Canada in 1989. He is the spouse of Ms. Man Yee Wai, Viola, an Executive Director.



Dr. Tsoi Kam Biu, Alvin (蔡鑑彪), aged 59, is an Executive Director and Vice Chairman. He is responsible for the overall strategic planning of the Group's business. Dr. Tsoi has over 21 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 in 1983 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 in 1997.



Mr. Leung Chin Man (梁展文), aged 70, is an Executive Director. Prior to joining the Group, Mr. Leung held various senior positions in the government of Hong Kong for 39 years. He was the Director of Community Relations of the Hong Kong Independent Commission Against Corruption from 1988 to 1991, the Deputy Secretary for Constitutional Affairs from 1991 to 1994, the Deputy Secretary for Housing from 1997 to 1999, the Director of Buildings of the Buildings Department of the government of Hong Kong from 1999 to 2002, and the Permanent Secretary for Housing, Planning and Lands of the Housing, Planning and Lands Bureau of the government of Hong Kong from 2002 to 2006. He was appointed a Justice of the Peace by the Chief Executive of Hong Kong SAR in 2007. Mr. Leung received his Bachelor's Degree in Philosophy from the University of London in August 1974.

Ms. Man Yee Wai, Viola (文綺慧), aged 50, is an Executive Director and has been with the Group since its founding in 1998. She is responsible for corporate and brand strategies, and the overall strategic planning of the Group's business. Ms. Man was the Key Account Manager and Group Product Manager of Nestle China Limited and the Consumer Marketing Manager of Coca-Cola China Ltd. and has over 20 years of experience in strategic planning, brand management, consumer and industrial marketing, key account management and new product development. Ms. Man was the Chairman (2012/13) of Tung Wah Group of Hospitals

("TWGHs"), one of the largest charitable organisations principally engaged in the provision of medical and health services, education and community services in Hong Kong and was a member of the Advisory Board of TWGHs (2013/14). Ms. Man was the Founding Chairman of the Board of Governors and College Council of Tung Wah College, and is currently the Council Chairman of Tung Wah College. She is a member of the Council of the Hong Kong Institute of Education and a member of the Advisory Committee of the School of Chinese Medicine of Hong Kong Baptist University. Ms. Man sits on the Hospital Governing Committees of five hospitals under the Hong Kong Hospital Authority. She is a member of the Dental Sub-Group of the Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development, and a member of the Risk Communication Advisory Group of the Centre for Health Protection of the Health Department. She is a member of the Betting and Lotteries Commission and a fellow of the Hong Kong Institute of Directors. 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 a Bachelor's Degree in Science from The University of Western Ontario, Canada in 1986 and a Master's Degree in Business Administration from The University of Windsor in Canada in 1989. She is the spouse of Mr. Chan Yu Ling, Abraham, the Group's Chairman, Chief Executive Officer and Executive Director.



DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT (continued)



Non-executive Director

Mr. Chan Kin Man, Eddie (陳健文), aged 55, is an Non-Executive Director. Mr. Chan has over 30 years of extensive experience in professional accounting and taxation service. He is the founder and senior partner in CWCC, an accounting firm, to oversee the divisions of tax, corporate secretarial and China business advisory services. Mr. Chan was accredited as a Certified Public Accountant (practising) and a fellow member by the Hong Kong Institute of Certified Public Accountants in January 1990 and July 1993, respectively, a Chartered Certified Accountant (practising) and a fellow member of the Association of Chartered Certified Accountants in July 2004 and January 2001, respectively. He was also accredited as a Certified Tax Adviser and a fellow member by The Taxation Institute of Hong Kong in July 2010. He has been an associate member of The Institute of Chartered Accountants in England and Wales since December 2007. He received a higher diploma in accountancy from the Hong Kong Polytechnic University in 1982.



Independent Non-executive Directors

Dr. Chan Kin Keung, Eugene (陳建強), aged 52, 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; a member of the Advisory Committee of School of Chinese Medicine of Hong Kong Baptist University, a member of Citizens Advisory Committee on Community Relations of Independent Commission Against Corruption, a member of Independent Police Complaints Council and a member of the Appeal Board on Public Meetings and Procession since 2013; and a member of the Quality Education Fund Steering Committee since 2015. He was appointed as the non-official Justices of the Peace by the Chief Executive of Hong Kong SAR. He obtained a Bachelor's Degree in Dental Surgery from the University of Adelaide in Australia in 1988.

Mr. Ho Kwok Wah, George (何國華), aged 57, is an Independent Non-Executive Director. Mr. Ho has over 20 years of extensive experience in accounting, auditing and financial management. He is the Proprietor of George K. W. Ho & Co., Certified Public Accountants, an accounting firm in Hong Kong, as well as the Director of Hong Kong Shatin Industries and Commerce Association Limited, and Hong Kong Commerce and Industry Associations Limited, respectively. Mr. Ho is also an Independent Non-Executive Director of Town Health International Holdings Limited (stock code: 3886), Belle International Holdings Limited (stock code: 1880), and Rykadan Capital Limited (stock code: 2288). He was awarded Medal of Honour (MH) by the government of HKSAR in 2015. Mr. Ho obtained a Bachelor's Degree in Accountancy from the Hong Kong Polytechnic University in 1994.



Dr. Leung Lim Kin, Simon (梁念堅), aged 61, 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 Inc. and the Chief Executive Officer of Huayu Education Technology, responsible for the overall strategic layout, direction of technical products and international business operation of all the education-related business of the company. Since 2010, Dr. Leung has been 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 in 1978, an honorary doctorate in laws from the University of Western Ontario in Canada in 2005 and a doctorate degree of business administration from the Hong Kong Polytechnic University in 2007.



Prof. Tsui Lap Chee (徐立之), aged 65, is an Independent Non-Executive Director. Prof. Tsui is currently the President of the Academy of Sciences of Hong Kong and the President of Victor and William Fung Foundation. He is also an Independent Non-Executive Director of China NT Pharma Group Company Limited (stock code: 1011), and Hang Lung Group Limited (stock code: 0010), respectively. Prior to joining the Group, he was the Vice Chancellor of the University of Hong Kong. Prof. Tsui has over 40 years of research work experience, particularly in human genetics and genomics. Besides, he has over 300 peer-reviewed scientific publications and 65 invited book chapters. He was the recipient of many national and international prizes and was awarded 15 honorary doctoral degrees from universities around the world. He was appointed as the Justice of the Peace and was awarded the Gold Bauhinia Star by the Chief Executive of Hong Kong SAR in 2006 and 2011, respectively. He received a Doctor of Philosophy Degree from the University of Pittsburgh in the U.S. in 1979.



DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT (continued)

SCIENTIFIC ADVISORY COMMITTEE

Prof. Paul Vanhoutte (樊浩德), is the Chairman of Scientific Advisory Committee. Prof. Vanhoutte is the Chair Professor of the Department of Pharmacology & Pharmacy and Honorary Professor of the Department of Anaesthesiology, the University of Hong Kong. Prof. Vanhoutte has written three theses. He has co-authored or edited 36 books. He has published 654 original research papers, and 562 editorials, reviews or chapters in books. His major scientific contribution has been to appreciate and analyse the importance of endothelial cells in the control of the underlying vascular smooth muscle in vascular health and disease, and to highlight the complexity of that regulation. Prof. Vanhoutte is a Highly Cited Researcher (ISI) in three categories: Biology & Chemistry, Pharmacology, and Clinical Medicine.



Prof. Rudolf Bauer, is the Professor of 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 20 years. He has published 270 original publications, reviews and book chapters.



Mr. Chan Yu Ling, Abraham (陳宇齡), is the founder, Chairman, Chief Executive Officer and Executive Director of the Group. Please refer to page E5 of this annual report for further details on the biography of Mr. Chan.



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



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



Prof. Liang Song Ming (梁頌名), is the Visiting Professor of the School of Chinese Medicine, the Chinese University of Hong Kong. Prof. Liang was awarded the Second Class, Science and Technology Prize for Progress in Traditional Chinese Medicine, Guangdong Province for the "Pharmacological Study of Wu Zi Yan Zong Wan". Prof. Liang has significant academic achievements in Chinese Medicine and has published over 20 theses and publications. His scope of research includes but not limited to the study on effectiveness of Huang Qi, Gan Cao, Da Zao towards spleen and stomach, the study on Xiao Gan Fu Pi Wan on toxic hepatitis, the study on Chinese Medicine treatment for high blood pressure, the study on Chinese Medicine treatment for hyperlipidemia, and Quantitative study of chlorogenic acid in Yin Ju Shu Fu Lu by TLC method, etc.



Mr. Lin Jinn Sin (林錦心), is a retired member of IBM Academy of Technology, which comprises of top IBM scientists and engineers around the world. 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, and internet / intranet in many Asian countries.



Prof. Bruce Robinson, is the Dean of the Faculty of Medicine, The University of Sydney, Australia and Head of Cancer Genetics, Kolling Institute of Medical Research at Royal North Shore Hospital. Prof. Robinson established the Cancer Genetics laboratory almost 20 years ago and has made significant contributions to research in the genetics of thyroid, adrenal and parathyroid in addition to colon and brain cancers. His major significant achievements over the past 10 years have been on the role of the RET proto-oncogene in multiple endocrine neoplasia type 2 (MEN2), work on adrenal cancers and studies to develop targeted gene therapy for medullary thyroid carcinoma.



DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT (continued)

SENIOR MANAGEMENT

Mr. Chan Lung Sang (陳隆生), aged 64, is the Vice President of Nong's[®] Clinic Operations and Development. He is responsible for the clinic operations and development in the Hong Kong, PRC and overseas market, and the sales and marketing of Nong's[®] CCMG products in the overseas market. He joined the Group as a General Manager in 2003. From 1992 to 2001, Mr. Chan held various positions in A.S. Watson & Co., Ltd. and was appointed General Manager to oversee the Guangzhou business of Watson's water in 1999. In 2011, Mr. Chan was appointed as the Honorary President of The H.K.T.C.M. Orthopaedic and Traumatic Association Ltd. and in 2012, he was appointed as a consultant of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited. Mr. Chan obtained a Master's Degree in Business Administration from Janus University in the U.S. through distance learning in 1995.

Mr. Chan Simson Cheu Wok (陳兆萼), aged 65, is the Managing Director of Supply Chain Management. He is responsible for the management of the Group's production, procurement, logistics and clinic operations. Mr. Chan joined the Group in October 2015. Prior to joining the Group, Mr. Chan held a number of senior positions in multinational companies in Hong Kong, Canada and Germany. From 2010 to 2012, he was a Senior Vice President – Business Development, and later as a Senior Vice President – Head of Hong Kong at LF Logistics (Hong Kong) Ltd. From 2012 to 2015, he was a Project Director at Fung Kids (Management) Limited, a retailing operation of licensed international branded children apparel and foot wear products in Hong Kong, China and ASEAN Regions. He received a Bachelor's Degree in Science (Food Sciences) from the University of Toronto in Canada in 1977.

Mr. Cheng Hok Kai, Frederick (鄭學啟), aged 52, is the Managing Director of Corporate Finance and Investment and Company Secretary. Mr. Cheng joined the Group as Chief Financial Officer in 2010. Mr. Cheng has extensive experience in business, finance, and accounting management. Prior to joining the Group, from 2006 to 2008, he worked as the Finance Director for Asia Pacific and Japan of the Autodesk Asia Pte Ltd., where he was primarily responsible for finance and accounting function of the operation in Asia Pacific and Japan. Mr. Cheng has been a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia since March 2003 and January 2004, respectively. Mr. Cheng has been a fellow member of the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia since June 2012 and November 2013, respectively. Mr. Cheng obtained his Master's Degree in Accounting from the University of New South Wales in Australia in 1992.

Ms. Ho Yuk Chun (何玉珍), aged 48, 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. She received a Bachelor's Degree in Business from Monash University in Australia in 2002.

Mr. Lam Kin Man Patrick (林健文), aged 55, is the Chief Information Officer. He is responsible for managing the information technology department and providing technical and strategic advice to the Group's management on information technology aspects. Mr. Lam joined the Group in October 2015. Prior to joining the Group, from 1998 to 2015, Mr. Lam was the Director and later as the Vice President at SAE Magnetics (HK) Ltd., a manufacturer of magnetic recording heads for hard disk drives being used in computers and in consumer electronics, where he was primarily responsible for establishing information technology strategy for the company and leading system implementation. He received a Bachelor's Degree in Applied Science in 1981 and a Master Degree in Engineering in 1984 from the University of Toronto in Canada, respectively.

Ms. Lee Hoi Ying (李凱盈), aged 36, is the General Manager of Human Resources, Legal and Compliance. She is primarily responsible for the management of the administration, human resources, legal and compliance. Ms. Lee joined the Group in July 2007 as Assistant Manager of Human Resources and Administration. Prior to joining the Group, from 2003 to 2007, Ms. Lee was the Administration and Human Resources Assistant Manager of Urban Parking Limited, where she was primarily responsible for overseeing its administration, human resources, training and customer services. Ms. Lee received a Master's Degree in Strategic Human Resources Management from the Hong Kong Baptist University in 2014.

Ms. Li Sui Yu Ivy (李瑞雨), aged 48, is the Managing Director of OTC Sales and Marketing. She is responsible for the management of the sales and marketing of the Group's Chinese healthcare products. Ms. Li joined the Group in December 2015. Prior to joining the Group, from 2003 to 2015, Ms. Li was a Marketing Manager and later as a General Manager at Triumph International Hong Kong Limited, a worldwide underwear and lingerie manufacturer, where she was primarily responsible for overseeing the business operations in Hong Kong and Macau markets. Ms. Li received a Master's Degree in Business Administration from University of Wales in the United Kingdom in 1992. She was awarded the British Chevening Scholarship in 2000 by the British Consulate to undertake a 3-month intensive development program, including the Accelerated Development Program at the London Business School and the Advanced Management Program at the University of Cambridge, and the business visits to the European Union headquarter at Belgium.

Ms. Li Wai Shan (李慧珊), aged 35, is the Chief Financial Officer. She is responsible for the Group's financial reporting and financial management. Ms. Li joined the Group in August 2010 as Financial Controller. Prior to joining the Group, Ms. Li was a Senior Audit Manager at Ernst & Young, a certified public accounting firm in Hong Kong, where she was primarily responsible for audit and assurance service. Ms. Li was accredited as a Certified Public Accountant by the Hong Kong Institute of Certified Public Accountants in October 2005. She received a Bachelor's Degree in Accounting from the Hong Kong University of Science and Technology in 2001.

Mr. Shi Gang (石鋼), aged 61, is the Chief Representative of the Beijing representative office. Mr. Shi joined the 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 the Group's operation, liaising with the CFDA at the provincial level, obtaining sales approval and monitoring the relevant policies and regulations in the PRC. Prior to joining the Group, Mr. Shi was appointed as the Chief Representative of Ryoden (Holdings) Limited 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. Mr. Shi was accredited as an electrical engineer in the PRC by The Ministry of Science and Technology of the PRC in November 1994. Mr. Shi received his Bachelor's Degree in Journalism from Beijing Renwen University (formerly known as Beijing Renwen Hanshou University) in 1987.

Ms. Tang Yumei (唐玉梅), aged 40, is the General Manager of Production and Supply Chain in the PRC. She is responsible for the management of production and supply chain. Ms. Tang joined the Group in 1998 and worked at various positions such as Laboratory Technician at the Quality Control division, Technician and Assistant Manager at the Technology division, Manager at the Production division and Plant Manager of our Group, where she was primarily responsible for production and quality management. Ms. Tang received a Master's Degree in Chinese Medicine from the Guangxi University of Chinese Medicine in 2005.



CORPORATE MILESTONE

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

- 1998** • The Group was founded by Mr. Chan Yu Ling, Abraham.
- 2002** • In recognition of the Group's research and development expertise, the Group was selected by the State of Administration of Traditional Chinese Medicine to undertake the Concentrated Chinese Medicine Granules ("CCMG") combination formulation research project to review and advise on the use of CCMG combo formulae products in China.
- 2004** • The Group was selected as one of the six pilot manufacturers and also the only non-PRC company that is licensed by the China Food and Drug Administration (the "CFDA") to manufacture and sell CCMG products in China.
 - The Group became a CCMG product supplier of the majority of Hong Kong hospitals and healthcare institutions with Traditional Chinese Medicine ("TCM").
 - The Group began to sell its CCMG products to mobile clinics operated by non-profit organisation customers.
- 2009** • The Group's testing laboratory was certified by the China National Accreditation Service for Conformity Assessment (the "CNAS"), an international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards.
 - The Group's ONCO-Z coriolus versicolor extract, the sole ingredient of one of the Group's Chinese healthcare products, Oncozac® (安固生®), was verified by United States Pharmacopoeia ("USP") as dietary ingredient and became the world's first TCM ingredient verified by the USP. The USP medicine standards are widely recognised as one of the most strict quality control standards for assessment of the identity, strength, quality, and purity of medicines.
- 2010** • The Group obtained Good Manufacturing Practice ("GMP") certifications from the Australia Therapeutic Goods Administration ("TGA"), which is widely regarded as the most stringent certification standard in the world.
- 2011** • The Group was recognised as "Top Five Companies of Proprietary Chinese Medicine Exports 2011".
- 2014** • The Group's Radix Astragali Formula Granules was verified by the USP Dietary Ingredient Verification Program
 - Nong's® (農本方®) was awarded "Hong Kong Top Brand Awards" issued by the Hong Kong Brand Development Council.
- 2015** • The shares of the Company (the "Shares") were listed on the Main Board of the Stock Exchange on 8 July 2015 (the "Listing Date").
 - The 30th Nong's® (農本方®) clinic was opened in Hong Kong.





- 1001 菊花
- 1002 甘草
- 1003 金銀花
- 1004 連翹
- 1005 白芍
- 1006 菊花
- 1007 甘草
- 1008 金銀花
- 1009 白芍
- 1010 茯苓
- 1011 丹參
- 1012 黃芪
- 1013 黨參
- 1014 法半夏
- 1015 柴胡
- 1016 防風
- 1017 龍牙藤
- 1018 白朮
- 1019 薄荷
- 1020 山茱萸
- 1021 桑寄生
- 1022 牡丹皮
- 1023 狗脊
- 1024 玄參
- 1025 牡丹皮
- 1026 狗脊
- 1027 玄參
- 1028 茯苓
- 1029 葛根
- 1030 枳實
- 1031 慧以仁
- 1032 地黃
- 1033 熟地黃
- 1034 菟絲子
- 1035 梔子
- 1036 山茱萸
- 1041 陳皮
- 1042 遠志
- 1043 陳皮
- 1044 遠志
- 1045 密蒙花
- 1046 板藍根
- 1047 地骨皮
- 1048 地骨皮
- 1049 何首烏
- 1050 黃芩
- 1051 夏枯草
- 1052 辛夷
- 1053 白芷
- 1054 紫蘇葉
- 1055 天麻
- 1056 薄荷
- 1057 枸杞子
- 1058 木瓜
- 1059 青蒿
- 1064 桑葉
- 1065 百歲藤
- 1066 桑葉
- 1067 首烏藤
- 1068 白朮
- 1069 黃柏
- 1070 茯苓
- 1071 蔓荊子
- 1072 大棗
- 1073 黃精
- 1074 車前子
- 1075 秦艽
- 1076 女貞子
- 1077 益母草
- 1078 山藥
- 1079 香附
- 1080 獨活
- 1081 生薑
- 1093 當歸頭
- 1094 蒼朮
- 1095 蒼朮
- 1096 當歸頭
- 1097 海藻
- 1098 雞內金
- 1099 石決明
- 1100 柏子仁
- 1101 牡蠣
- 1102 佩蘭
- 1103 三七
- 1104 益智
- 1105 桃仁
- 1106 桑葉
- 1107 威靈仙
- 1108 北沙參
- 1121 龍骨
- 1122 太子參
- 1123 龍骨
- 1124 太子參
- 1125 瓜蒌
- 1126 玉竹
- 1127 昆布
- 1128 萊菔
- 1129 大黃
- 1130 桑枝
- 1131 青皮
- 1132 土茯苓
- 1133 蛇莓
- 1134 郁李仁
- 1135 浮小麥
- 1136 香
- 2001 八珍湯
- 2002 六味地黃丸
- 2003 八珍湯
- 2004 四物湯
- 2005 桑菊飲
- 2006 二陳湯
- 2007 六君子湯
- 2008 四君子湯
- 2009 蘇合香丸
- 2010 蘇合香丸
- 2011 蘇合香丸
- 2012 蘇合香丸
- 2013 蘇合香丸
- 2014 蘇合香丸
- 2015 蘇合香丸
- 2016 蘇合香丸
- 2017 蘇合香丸
- 2018 蘇合香丸
- 2019 蘇合香丸
- 2020 蘇合香丸
- 2021 蘇合香丸
- 2022 蘇合香丸
- 2023 蘇合香丸
- 2024 蘇合香丸
- 2025 蘇合香丸
- 2026 蘇合香丸
- 2027 蘇合香丸
- 2028 蘇合香丸
- 2029 蘇合香丸
- 2030 蘇合香丸
- 2042 玉女煎
- 2043 小承氣湯
- 2044 玉女煎
- 2045 小承氣湯
- 2046 玉女煎
- 2047 小承氣湯
- 2048 玉女煎
- 2049 小承氣湯
- 2050 玉女煎
- 2051 小承氣湯
- 2052 玉女煎
- 2053 小承氣湯
- 2054 玉女煎
- 2055 小承氣湯
- 2056 玉女煎
- 2057 小承氣湯
- 2058 玉女煎
- 2059 小承氣湯
- 2060 玉女煎
- 2061 小承氣湯
- 2062 玉女煎
- 2063 小承氣湯
- 2064 玉女煎
- 2065 小承氣湯
- 2066 玉女煎
- 2067 小承氣湯
- 2068 玉女煎
- 2069 小承氣湯
- 2070 玉女煎
- 2071 小承氣湯
- 2072 玉女煎
- 2073 小承氣湯
- 2074 玉女煎
- 2075 小承氣湯
- 2076 玉女煎
- 2077 小承氣湯
- 2078 玉女煎
- 2079 小承氣湯
- 2080 玉女煎
- 2081 小承氣湯
- 2082 玉女煎
- 2083 小承氣湯
- 2084 玉女煎
- 2085 小承氣湯
- 2086 玉女煎
- 2087 小承氣湯
- 2088 玉女煎
- 2089 小承氣湯
- 2090 玉女煎
- 2091 小承氣湯
- 2092 玉女煎
- 2093 小承氣湯
- 2094 玉女煎
- 2095 小承氣湯
- 2096 玉女煎
- 2097 小承氣湯
- 2098 玉女煎
- 2099 小承氣湯
- 2100 玉女煎



Dear Shareholders,

In 2015, the Group achieved a solid growth rate of 29.4% in revenue compared to last year. In particular, the Group's revenue generated from the business segment of CCMG products in China recorded an encouraging growth rate of 43.6%, which exceeded compound average annual growth rate of 22.4%* according to the projected prescription value of the CCMG product market in China from 2015 to 2019.

In Hong Kong, the Group expands into new sales channels by establishing Chinese medicine clinics under the Nong's[®] (農本方[®]) brand and the Group has achieved its goal, as set out in the Company's prospectus, of increasing the total number of Nong's[®] (農本方[®]) clinics in Hong Kong to 30 by the end of 2015. Compared to just three TCM clinics as at 30 June 2014, the number of clinics operated by the Group has been substantially increased by tenfold in approximately one and a half years, and this is a testament to the Group's extreme confidence in this business.

The listing of the Group on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") marks an important milestone for the Group, and further enhances the Group's competitiveness within the CCMG product market in Hong Kong and China. With its rich experience and solid track record, the Group is ready to capture growing market demand, aiming to create fruitful returns to shareholders over the long run.

PROSPECTS

To fuel future growth, the Group continues to strengthen its leading position in the CCMG product market in Hong Kong and significantly expand its presence in Mainland China. In view of the huge demand for convenient access to CCMG by patients and leveraging the success of the Group's Nong's[®] (農本方[®]) clinic business model in Hong Kong, the Group is in the process of establishing its Nong's[®] (農本方[®]) clinics model in Mainland China and plan to work with local business partners to establish Nong's[®] (農本方[®]) clinics in selected regions there.

Leveraging its strong brand recognition in Hong Kong as well as its competitive strengths including product quality, safety and operational expertise, the Group continues to replicate its successful business model in the CCMG market in China. The strategic partnership with provincial distributors, who have strong and experienced teams to sell and distribute TCM throughout Mainland China, enables the Group to expand its geographical reach into the new target cities to capture the tremendous opportunities.

With its proven research and development capabilities, the Group will maintain its leading market position through developing and commercialising new products. The clinical trial of the two new drug products, namely Ren Shu Chang Le Granules (仁術腸樂顆粒) and Puerarin Phospholipids Complex Capsules (葛根素磷脂複合物膠囊), are expected to be completed by 2020. Also, in order to drive a successful offline-to-online (O to O) business model, the Group will establish its own concept stores in Hong Kong and China to enhance its distinctive and quality brand image and to capture the immense healthcare products market through the integrated online sales platform.

APPRECIATION

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

By Order of the Board

Chan Yu Ling, Abraham

Chairman

Hong Kong, 23 March 2016

*Source: Euromonitor Report



PuraPharm



CORPORATE PROFILE

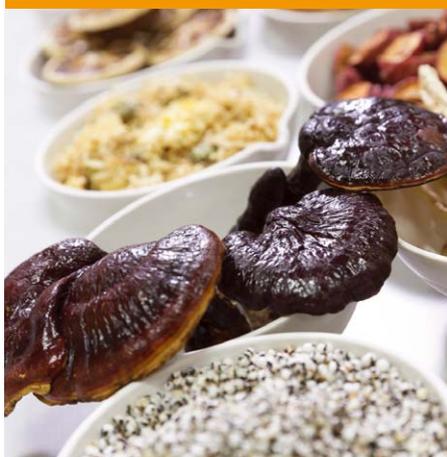
The Group is a leading Hong Kong-based Chinese medicine company primarily engaged in the research and development, production, marketing and sale of CCMG products marketed under its brand "Nong's® (農本方®)". The Group is one of the only five, and the only non-PRC company that is licensed by the CFDA to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

* In terms of prescription revenue in 2014 according to the Euromonitor Report.

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

The Group has invested in TCM research and production facilities in Nanning, Guangxi, China. The factory complies with the PRC GMP standards as well as the TGA standards – the latter being one of the strictest certification standards in the world. The Group's laboratory is certified by the CNAS, the international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards. The Group's manufacturing facilities are regarded as one of the most advanced TCM research and manufacturing facilities in Asia.

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



CORPORATE STRENGTHS

- The Group is the market leader in the CCMG market in Hong Kong where its products are widely recognised for their premium product quality, reliability and safety.
- The Group offers an extensive range of modernised CCMG products including single formulae and combo formulae products, and a proprietary, patented and automated clinic and hospital management and dispensing system to provide a total Chinese medicine solution for its customers and end users.



- The Group's modernised manufacturing facilities, coupled with its strong capabilities in medical product safety testing and stringent quality control during the manufacturing process, have enabled it to ensure premium product quality and safety.
- The Group is a pioneering research and development company dedicated to the modernisation and internationalisation of Chinese medicine and its proven track record in the development of new TCM products, in particular CCMG combo formulae products, differentiates it from its competitors.



PRODUCTS AND SERVICES OVERVIEW

HOLISTIC

With the aging of the general population, consumers are becoming increasingly health conscious. Consumers identify a suitable health product according to one's specific needs. The Group carries a range of holistic products, such as **PuraGold**[®], **Haveron**[®], **CardioClear**[®], which are Chinese healthcare products made from Chinese medicinal ingredients, developed based on general consumer demands. They are formulated and developed based on common health conditions found in today's societies. These products are to be used by consumers primarily for maintaining overall health and general well-being, or as a health supplement for preventive purposes. They are available over-the-counter and are distributed through pharmacy chain stores and individual pharmacy stores and are available for direct purchase by end consumers in these retail outlets, or via our own direct online sales channel.

PuraGold[®]

PuraGold[®] sources only fine quality wild Lingzhi from its natural origins and constantly improves identification and authentication methods. From using quality ingredients to staying at the forefront of sophisticated pharmaceutical technology, **PuraGold**[®] is made only for the discerning few.

Wild Lingzhi is particularly rich in polysaccharides, triterpenoids, adenosine and other trace elements, which are essential to strengthening human immunity and boosting general health.



THERAPEUTIC

The Group also carries a range of therapeutic products, such as **Oncozac**[®], **Nong's**[®], which are more specific in addressing consumers' needs. These products provide therapeutic value targeted at both normal home use for general relief, as well as for professional use by clinicians or Chinese medicine practitioners with a functional purpose to address consumers' specific health conditions, problems, or illnesses, which are usually not serious in nature. Depending on the nature of the products, the Group's range of therapeutic products are available over-the-counter at pharmacy chain store and individual pharmacy stores for purchase by end consumers or through the Group's own online sales channels, or via professional clinicians or Chinese medicine practitioners.

Oncozac[®]

Oncozac[®] is a new generation Yunzhi-derived adjunct remedy with enhanced efficacy[^] developed for those combating serious illnesses. Developed through rigorous pharmaceutical research conducted in the School of Pharmacy, The Chinese University of Hong Kong, **Oncozac**[®] contains the patented production ingredient: APG (absorbable peptidoglycan). Yunzhi can effectively strengthen bodily immune function that can relieve side effects caused by surgery, radiotherapy or chemotherapy.

[^] Internal Research of comparison between different coriolus versicolor products in response to in vitro mitogenic activity.

Yunzhi has been used in traditional Chinese medicine for centuries to strengthen the body's immune system. More recent scientific researches and clinical trials have proven that Yunzhi extract helps stimulate the immune system so that the body is better able to defend against the serious illnesses.

Nong's[®]

Nong's[®] are traditional Chinese medicinal herbs extracted into granules by using modernized extraction and concentration technologies to replicate the traditional method of preparing medicinal decoction. It is instantly soluble in water and eliminates the tedious and complicated process of boiling herbs, while guaranteeing the same degree of curative efficacy, taste, aroma and flavor as in traditionally-prepared medicinal decoction. **Nong's**[®] carries an over-the-counter range of instant chinese medicine granules for retail consumers.



PRODUCTS AND SERVICES OVERVIEW (continued)



The Group has modernized the manner in which TCM is manufactured, prepared and consumed by offering a broad range of CCMG products for easy and immediate consumption.

Nong's[®] also carries a specialized range of CCMG products for professional use by Chinese medicine practitioners' for prescription purposes. Nong's[®] CCMG has been used by the majority of Hong Kong hospitals and healthcare institutions with TCM clinics since 2004. The Group is the leading and the largest supplier of CCMG products in Hong Kong with a market share of 70%*.

** In terms of prescription revenue in 2014 according to the Euromonitor Report.*

Nong's[®] CCMG products is complimented by its proprietary, integrated and comprehensive diagnostic clinic management and drug dispensing system, Chinese Medicine Clinic Management System ("CMCMS"), offering a total and complete solution in Chinese medicine products and services, which the Group sells to qualified Chinese medicine practitioners (the "CMPs") in hospitals, clinics, universities, research institutes and other medical organizations for prescription purposes. The Group's CMCMS automates the entire service process of a TCM clinic from patient registration, organization of patients' medical records, medical diagnosis, prescription processing and inventory management to CCMG product dispensation. Following consultation with a patient, a TCM practitioner using our CMCMS is able to prescribe accurately ready-mixed dosages of different CCMG products in a single sealed packet for easy, safe and immediate consumption. Nong's[®]



CMCMS provides a solid platform for future evidence-based research in the modernisation and internationalisation of Chinese medicine. Nong's[®] CCMG coupled with the CMCMS provides a total and complete solution in Chinese medicine products and services to professional CMPs and patients.

Nong's[®] (農本方[®]) Chinese Medicine Clinic

In addition to providing a broad range of CCMG for CMPs' professional prescription purposes, and a complete CMCMS for general clinic management, the Group 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 and operated by registered CMPs who use the Group's CMCMS to prescribe its 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 CCMG.

All practitioners in the Group's Nong's clinics are qualified university graduates and are registered CMPs in Hong Kong, 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.



FINANCIAL HIGHLIGHTS

Year ended 31 December

	Year ended 31 December			
	2015 HK\$'000	2014 HK\$'000 (Restated)**	Change HK\$'000	%
Financial highlights				
Revenue				
China CCMG	251,580	175,240	76,340	43.6
Hong Kong CCMG	156,066	145,234	10,832	7.5
Chinese healthcare products	47,664	40,069	7,595	19.0
Nong's® (農本方®) Chinese medicine clinics	18,590	5,809	12,781	220.0
	473,900	366,352	107,548	29.4
Gross profit	305,732	232,111	73,621	31.7
Profit for the year	28,458	34,507	(6,049)	(17.5)
*Adjusted profit for the year	47,457	40,258	7,199	17.9
Dividend per share (HK cents)	8.89	-	8.89	N/A
Key profitability ratio				
Gross profit ratio	64.5%	63.4%		
*Adjusted profit margin ratio	10.0%	11.0%		

* Adjusted profit for the year representing the net profit for the year adjusted for listing expense. Adjusted profit is not a measure of performance under Hong Kong Financial Reporting Standards ("HKFRSs"). This measure does not represent and should not be used as a substitute for, gross profit or profit for the year as determined in accordance with HKFRSs. In addition, the Group's definition of adjusted profit may not be comparable to other similarly titled measures used by other companies.

The Group presented adjusted profit and adjusted profit margin ratio because the Group believes they present a more meaningful picture of its financial performance than unadjusted numbers as they exclude the impact from a one-off listing expense.

** As compared with the segment information included in the audited financial statements for the year ended 31 December 2014, the sales of CCMG products through self-operated clinics were separately accounted for in the clinic segment for the year ended 31 December 2015. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosure.



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

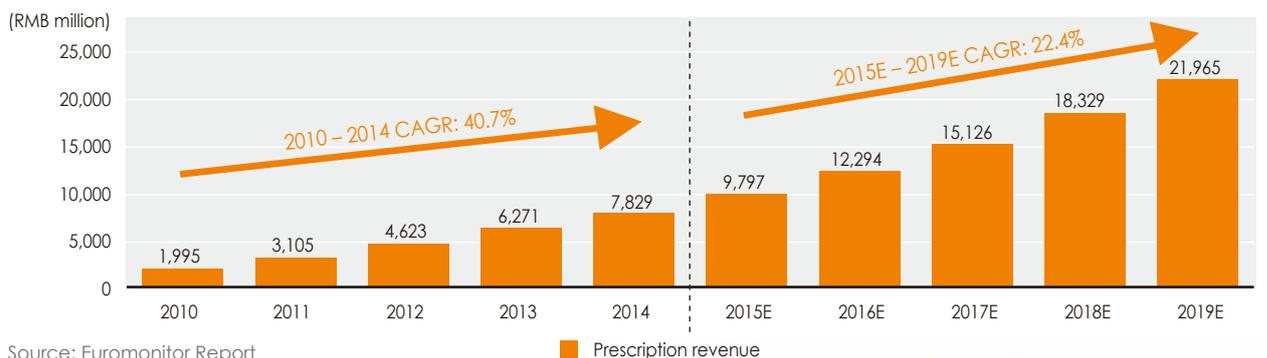
Nowadays, people are becoming increasingly health-conscious and quest for quality health products as well as improved quality of life. Over the years, CCMG products have gradually become substitutes for traditional Chinese herbal medicines due to the government initiatives to promote the use of CCMG products and increasing consumer awareness of the benefits of such products. The added convenience of CCMG products over the timely and complicated process of preparing Chinese medicine decoction also increases its consumer demands. All CCMG products are required to be manufactured in the GMP-certified facilities in accordance with relevant product quality and safety standards. In recent years, the efficacy of CCMG products becomes more acceptable by patients.



China Chinese Medicine Market



China CCMG Product Market



Source: Euromonitor Report

The charts above set forth the historical and projected prescription value of the Chinese Medicine market and CCMG product market from 2010 to 2019.

The Group 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 accumulated oriental wisdom of TCM.



FINANCIAL REVIEW

SALES PERFORMANCE

	Year ended 31 December				
	2015 Revenue HK\$'000	% of total	2014 Revenue HK\$'000	% of total	Growth rate
China CCMG	251,580	53.1%	175,240	47.9%	43.6%
Hong Kong CCMG	156,066	32.9%	145,234	39.6%	7.5%
Chinese healthcare products	47,664	10.1%	40,069	10.9%	19.0%
Nong's® (農本方®) Chinese medicine clinics	18,590	3.9%	5,809	1.6%	220.0%
Total	473,900	100.0%	366,352	100.0%	29.4%

For the year ended 31 December 2015, the Group's revenue was HK\$473.9 million, representing an increase of HK\$107.5 million or 29.4% compared to HK\$366.4 million in last year, which was mainly attributable to the strong revenue growth of the Group's CCMG products in Mainland China and fast expansion of the Group's Nong's® (農本方®) Chinese medicine clinics in Hong Kong.

China CCMG

The Group markets and distributes its CCMG products in China through both direct sales channels and third party distributors to hospitals and medical institutions. For the year ended 31 December 2015, the sales of CCMG products in China was HK\$251.6 million, representing an increase of HK\$76.4 million or 43.6% compared to HK\$175.2 million in last year. Subsequent to the Group's consolidation of distribution network in 2014 to increase the sales efficiency, the Group's resources are more focused on the direct sales customers and better-performing distributors, and this led to an increase in sales volume of the Group's CCMG products to both direct sales customers and distributors.

In order to increase the effectiveness of launching and selling its products in target markets within a short period of time, the Group has appointed Heilongjiang ZBD Pharmaceutical Co Ltd. ("ZBD Pharma"), as its distributor for CCMG products in five provinces in China, namely, Heilongjiang, Anhui, Liaoning, Hebei and Henan, on an exclusive basis*. Leveraging on ZBD Pharma's strong customer base and relationship with hospitals and medical institutions, the collaboration led to an increase in sales of the Group's CCMG products in those five provinces during the year.

*save for the distributors who were appointed by the Group prior to the appointment of ZBD Pharma.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

HK CCMG

The Group markets and distributes its CCMG product in Hong Kong through (i) direct sales to its customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners and (ii) self-operated Nong's[®] (農本方[®]) Chinese medicine clinics, which would be analysed in separate section below. For the year ended 31 December 2015, the direct sales of CCMG products in Hong Kong was HK\$156.1 million, representing an increase of HK\$10.9 million or 7.5% compared to HK\$145.2 million in last year. The Group continued to maintain its leading market position in Hong Kong and recorded a steady growth of revenue from the direct sales of CCMG products in Hong Kong.

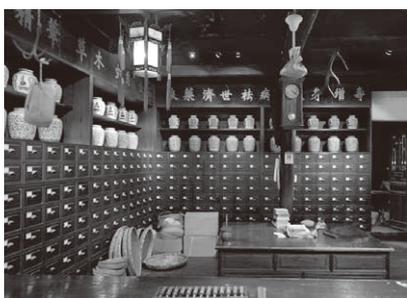
Nong's[®] (農本方[®]) Chinese medicine clinics

Leveraging its market leadership position in Hong Kong and the well-known brand Nong's[®] (農本方[®]) brand, the Group intends to extend market penetration to increase revenue, and diversity into a new Chinese medicine clinic business model to capture growing market demand and further increase its CCMG product market share in Hong Kong. The Group has established Nong's[®] (農本方[®]) Chinese medicine clinics by procuring premises within shopping malls and partnering with registered CMPs to operate these Chinese medicine clinics, on the Group's behalf, under its "Nong's[®] (農本方[®])" brand. Such clinics provide one-stop services, including medical diagnostic and dispensary services involving CCMG products.

For the year ended 31 December 2015, 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\$18.6 million in aggregate, representing an increase of HK\$12.8 million or 2.2 times compared to HK\$5.8 million in last year, which was mainly attributable to the fast expansion of the Nong's[®] (農本方[®]) Chinese medicine clinics network, from 7 clinics as at 31 December 2014 to 30 clinics in 2015.

In view of the large demand and the growth potential of the TCM clinics market in Hong Kong, the Group expressed its commitment to develop its Nong's[®] (農本方[®]) clinic business during its Initial Public Offering in mid-2015 – seeking to operate 30 clinics by the end of 2015. Compared to just three TCM clinics as at 30 June 2014, the number of clinics operated by the Group has been increased tenfold in approximately one and a half years, and is a testament to its strong confidence in this business.

As one of the growth engines of the Group's business, it has expedited the expansion of the Nong's[®] (農本方[®]) clinics business in recent years, aiming to further enhance its brand recognition in Hong Kong. The rapid expansion of the clinics operation underscores the huge demand for Chinese medicine, as well as the increasing popularity of CCMG in Hong Kong. In choosing locations for the clinics, the Group has placed priority on high population density, a shortage of modernized Chinese medicine clinics, and reasonable rental rates. The clinics are strategically located in shopping malls or in the neighborhoods of housing estates and offices, bringing an ideal return both to the Group and to its registered TCM practitioner partners.



Chinese healthcare products

For the year ended 31 December 2015, revenue from sales of Chinese healthcare products was HK\$47.7 million, representing an increase of HK\$7.6 million or 19.0% compared to HK\$40.1 million in last year, mainly attributable to better sales performance of PuraGold[®] and Nong's[®] Flu Formula products. The Group's promotional and marketing strategies increase the brand awareness and demand of the Group's Chinese healthcare products.



PROFITABILITY

	Year ended 31 December		
	2015 HK\$'000	2014 HK\$'000	Growth Rate
Revenue	473,900	366,352	29.4%
Cost of sales	(168,168)	(134,241)	25.3%
Gross Profit	305,732	232,111	31.7%
Gross profit margin	64.5%	63.4%	

The Group's gross profit margin for the year ended 31 December 2015 was approximately 64.5%, representing an increase of 1.1 percentage points compared to last year. The increase in gross profit margin was mainly attributable to the increase in portion of revenue generated from Nong's[®] (農本方[®]) Chinese medicine clinics from which the Group generated a higher gross profit margin.

OTHER INCOME AND GAINS

The Group's other income and gains mainly comprised of government grants, gain from sale of equipment and accessories and interest income. For the year ended 31 December 2015, the Group's other income and gain was HK\$8.2 million, representing an increase of HK\$2.4 million or 41.7% compared to HK\$5.8 million in last year. The increase was mainly due to the increase in government grants received and gain from sale of equipment and accessories.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, traveling and business development expenses. For the year ended 31 December 2015, the Group's selling and distribution expenses were HK\$140.2 million, representing an increase of HK\$41.0 million or 41.4% compared to HK\$99.2 million in last year. The increase was mainly attributable to (i) increased advertising and promotional activities to strengthen the promotion of the Group's products and brands, and (ii) an increase in the Group's in-house sales and marketing personnel head count to strengthen its sales team for business development, including the sales team for Nong's[®] (農本方[®]) Chinese medicine clinics development.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)



ADMINISTRATIVE EXPENSES

The Group's administrative expenses mainly comprised of staff costs, research and development costs, rental expenses, legal and professional fees, listing expenses, clinic management fee, depreciation and amortisation, and other general administrative expenses. For the year ended 31 December 2015, the Group's administrative expenses were HK\$119.4 million, representing an increase of HK\$38.4 million or 47.3% compared to HK\$81.0 million in last year. The increase was mainly attributable to (i) an one-off listing expense of HK\$19.0 million, and (ii) an increase in clinic management fee and rental expenses in relation to the Group's Nong's® (農本方®) Chinese medicine clinics as the Group operated 30 clinics in 2015, as compared to seven clinics in last year.

OTHER EXPENSES

The Group's other expenses mainly comprised of charity donation, foreign exchange loss and miscellaneous expenses. The increase was primarily attributable to an increase in its charity donations mainly in Hong Kong.

FINANCE COSTS

For the year ended 31 December 2015, the Group's finance costs amounted to HK\$10.2 million, representing a decrease of HK\$2.9 million or 21.6% as compared to HK\$13.1 million in last year. The decrease was mainly due to the decrease in bank borrowings during the year ended 31 December 2015.

INCOME TAX EXPENSE

For the year ended 31 December 2015, the Group's income tax expenses amounted to HK\$11.7 million, representing an increase of HK\$3.9 million or 49.3% as compared to HK\$7.8 million in last year. The increase was mainly due to the increase in taxable profit arising from the Group's operation in China, and the tax effect of non-deductible listing expense.

ADJUSTED PROFIT

Adjusted profit, which consists of profit for the year adjusted for listing expense, was HK\$47.5 million for the year ended 31 December 2015, increased by HK\$7.2 million or 17.9% compared to HK\$40.3 million in last year. The increase was mainly attributable to the increase in revenue and gross profit improvement.

LIQUIDITY AND FINANCIAL RESOURCES

Cash position and interest-bearing bank borrowings

As at 31 December 2015, the Group had net current assets of HK\$315.2 million (31 December 2014: HK\$23.0 million), which included cash and cash equivalent of HK\$232.2 million (31 December 2014: HK\$46.7 million) and interest-bearing bank borrowings amounting to HK\$125.4 million (31 December 2014: HK\$182.7 million). As at 31 December 2015, the Group's unused bank facilities amounted to HK\$114.1 million (31 December 2014: HK\$60.6 million).

Cash flow and liquidity ratio analysis

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Net cash (used in) from operating activities	(12,570)	31,091
Net cash used in investing activities	(44,760)	(24,634)
Net cash from (used in) financing activities	267,797	(259)
Current ratio	2.4	1.1
Gearing ratio	0.3	1.3

For the year ended 31 December 2015, the Group's net cash used in operating activities was HK\$12.6 million, which was primarily attributable to (i) HK\$20.5 million payment for listing expenses and (ii) the increase in trade and bills receivables of HK\$59.3 million mainly resulting from the increased sales in the last quarter in 2015.

For the year ended 31 December 2015, the Group's net cash used in investing activities was HK\$44.8 million, which was mainly attributable to (i) the payment of HK\$24.1 million for the acquisition of a land parcel to expand our manufacturing facilities in Nanning and (ii) an additional investment of HK\$28.4 million mainly for expansion and improvement of the Group existing production facilities and establishment of new Nong's® (農本方®) Chinese medicine clinics in Hong Kong.

For the year ended 31 December 2015, the Group's net cash from financing activities was HK\$267.8 million, which was mainly attributable to the HK\$336.4 million proceeds raised from the Company's successful initial public offering.

As at 31 December 2015, the Group's net current ratio increased to 2.4 from 1.1 as at 31 December 2014, and gearing ratio (calculated by dividing total interest-bearing bank borrowings by total equity) decreased to 0.3 from 1.3 as at 31 December 2014. The increase in net current ratio and decrease in gearing ratio was mainly attributable to (i) the successful initial public offering of the Company which strengthened both cash and equity position of the Group and (ii) decrease in interest-bearing bank borrowings.

EXCHANGE RISK

The Group conducts business primarily in Hong Kong and Mainland China with most of the 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 would consider if there is a need to hedge against significant foreign currency exposure when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

CAPITAL COMMITMENTS

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Lands and buildings	48,582	69,608
Machinery and equipment	3,257	888
Intangible assets	709	–
	52,548	70,496

PLEDGE OF ASSETS

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

	Carrying value Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Property, plant and equipment	56,161	54,335
Prepaid land lease payments	2,704	2,909
Available-for-sale investments	10,849	10,531
Inventories	35,819	37,515
Trade and bills receivables	17,037	14,243
Prepayments, deposits and other receivables	689	–
Pledged bank deposits	6,000	20,633
	129,259	140,166

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2015.

HUMAN RESOURCES

As at 31 December 2015, the Group had a total of 469 employees (31 December 2014: 422 employees). During the year ended 31 December 2015, total staff costs excluding directors' remuneration was HK\$91.6 million (31 December 2014: HK\$66.4 million). The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share award may be granted to eligible employees based on the Group's and the individual's performance. The Group also allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

STATE-OF-THE ART PRODUCTION FACILITY

The Group owns and operates its Chinese medicine manufacturing facilities in Hi-tech Development Zone, Nanning, Guangxi Zhuang Autonomous Region, which occupies a land parcel of approximately 17,241 sq.m. with a total gross floor area of approximately 7,760 sq.m. The Group has designed its own manufacturing facilities and adopted advanced technologies and testing techniques in Chinese medicine production.

The production plant incorporates the efforts of leading architects, engineers and pharmaceutical plant design specialists from Canada, Australia and Japan, and meets the GMP standards of China, Australia, the USP, as well as the Group's internal standard operating procedures. It is recognised as one of the most sophisticated, well-managed Chinese medicine research and manufacturing plants in Asia.

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



ENVIRONMENTAL PROTECTION

The Group is subject to the environmental protection laws and regulations of the PRC. The major wastes produced during the Group's production process in its Nanning production base includes waste water, production emissions and solid wastes. The Group has obtained relevant waste water discharge permits and constructed its own waste water treatment station which has the capacity of 490 tons of waste water treatment per day. Through its activated sludge treatment, the Group's waste water meets the grade one integrated waste water discharge standards set by the PRC government, which is then safely discharged into the municipal sewer network. The Group discharges dust from pre-processing workshops after treatment with bag filters. The Group's production emissions are in compliance with the required air pollution emission standards set by the PRC government. For the year ended 31 December 2015, the Group has not been subject to any material claims or penalties in relation to environmental protection and was not involved in any environmental accidents or fatalities.





The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2015.

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"). From the Listing Date and up to 31 December 2015 (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.1.1 of the Code, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the Review Period, the Company only held two Board meetings as the Review Period was not a full year. The Board intends to meet at least four times per year at approximately quarterly intervals in the future.

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

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

A. The Board

1. Responsibilities

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

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

The Directors acknowledge their responsibility for preparing the financial statements of the Group and the Company for the year ended 31 December 2015.

CORPORATE GOVERNANCE REPORT (continued)

2. Delegation of Management Function

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

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

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

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

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



Pursuant to code provision B.1.5 of the Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2015 is set out below:

Remuneration band (HK\$)	Number of Individual
Nil-1,000,000	6
1,000,001-1,500,000	1
1,500,001-2,000,000	2
2,000,001-2,500,000	1

Details of the remuneration of each Director for the year ended 31 December 2015 are set out in Note 8 to the financial statements in this annual report.

3. Board Composition

As at 31 December 2015, the Board consisted of nine Directors, four of whom were Executive Directors, one of whom was Non-executive Director and four of whom were Independent Non-executive Directors. Biographies of the Directors are set out on pages E5 to E8 of this annual report.

As at 31 December 2015, the Board of the Company comprises the following Directors:

Executive Director	Mr. Chan Yu Ling, Abraham <i>(Chairman and Chief Executive Officer)</i> Dr. Tsoi Kam Biu, Alvin <i>(Vice-Chairman)</i> Mr. Leung Chin Man Ms. Man Yee Wai, Viola
Non-executive Director	Mr. Chan Kin Man, Eddie
Independent Non-executive Directors	Dr. Chan Kin Keung, Eugene Dr. Leung Lim Kin, Simon Mr. Ho Kwok Wah, George Prof. Tsui Lap Chee

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



CORPORATE GOVERNANCE REPORT

(continued)

3. Board Composition (continued)

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

Prior to their respective appointment, each of the Independent Non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received written annual confirmation from each of the Independent Non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence requirements set out in the Listing Rules.

4. Appointment and Re-election of Directors

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

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date (save for Mr. Leung Chin Man's service contract which is for a term of one year commencing from the Listing Date), which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the Independent Non-executive Directors and Non-executive Director has signed an appointment letter with the Company for a term of three years with effect from the Listing Date unless terminated by a written notice not less than 30 days' prior to the termination served 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 2015, 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. On top of the above-mentioned trainings, the chairman and chief executive officer (namely, Mr. Chan Yu Ling, Abraham) and members of the senior management have also attended presentation organized by the Group's legal advisers on case studies relating to compliance of listed companies.

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 2015, 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.



CORPORATE GOVERNANCE REPORT

(continued)

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 annual general meeting (whether in person or by means of electronic communication) held during the year ended 31 December 2015 are set out below:

Name of Director	Board Meeting	Annual general meeting*
Mr. Chan Yu Ling, Abraham	2/2	N/A
Dr. Tsoi Kam Biu, Alvin	2/2	N/A
Mr. Leung Chin Man	2/2	N/A
Ms. Man Yee Wai, Viola	2/2	N/A
Mr. Chan Kin Man, Eddie	2/2	N/A
Dr. Chan Kin Keung, Eugene	2/2	N/A
Dr. Leung Lim Kin, Simon	2/2	N/A
Mr. Ho Kwok Wah, George	2/2	N/A
Prof. Tsui Lap Chee	1/2	N/A

* During the period from the Listing date to 31 December 2015, no annual general meeting was held.

Practices and conduct of meetings

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

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

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



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

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

B. Board Committees

The Board has established four committees, namely, the Remuneration Committee, Audit Committee, Nomination Committee and Scientific Advisory Committee, for overseeing particular aspects of the Group's affairs. All of these four committees of the Company are established with defined written terms of reference.

The majority of the members of the Remuneration Committee, Audit and Compliance Committee and Nomination Committee are Independent Non-executive Directors. Out of seven committee members of Scientific Advisory Committee, six of them are not Directors of the Company.

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

1. Remuneration Committee

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

Dr. Chan Kin Keung, Eugene (*Chairman*)

Dr. Tsoi Kam Biu, Alvin

Prof. Tsui Lap Chee

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



CORPORATE GOVERNANCE REPORT

(continued)

During the year, one meeting was held by the Remuneration Committee to determine remuneration package for Director and senior management of the Group. The attendance records of the Remuneration Committee held during the year ended 31 December 2015 are set out below:

Committee members	Meeting attended/Total
Dr. Chan Kin Keung, Eugene (<i>Chairman</i>)	1/1
Dr. Tsoi Kam Biu, Alvin	1/1
Prof. Tsui Lap Chee	1/1

2. Audit Committee

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

Mr. Ho Kwok Wah, George (*Chairman*)
Mr. Chan Kin Man, Eddie
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 auditors and the Group, particularly the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard; (ii) reviewing the financial controls, internal control and risk management systems of the Group; (iii) reviewing financial and accounting policies and practices of the Group.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management. The Audit Committee considers that the annual financial results for the year ended 31 December 2015 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made. The Audit Committee has also reviewed the continuing connected transactions of the Group and the report of the auditor on continuing connected transactions.



The attendance records of the Audit Committee held during the year ended 31 December 2015 are set out below:

Committee members	Meeting attended/Total
Mr. Ho Kwok Wah, George (<i>Chairman</i>)	1/1
Mr. Chan Kin Man, Eddie	1/1
Dr. Leung Lim Kin, Simon	1/1

3. Nomination Committee

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

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

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

During the year, one meeting was held by the Nomination Committee to conduct the annual review of the structure, size and composition of the Board; to assess independence of Independent Non-executive Directors; and to review the Board Diversity Policy. The attendance records of the Nomination Committee held during the year ended 31 December 2015 are set out below:

Committee members	Meeting attended/Total
Mr. Chan Yu Ling, Abraham (<i>Chairman</i>)	1/1
Dr. Chan Kin Keung, Eugene	1/1
Dr. Leung Lim Kin, Simon	1/1

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



CORPORATE GOVERNANCE REPORT (continued)

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 2015, the Scientific Advisory Committee comprises six individuals who are not Director of the Company and one Executive Director:

Prof. Paul Vanhoutte (*Chairman*)

Prof. Bill Chan

Mr. Chan Yu Ling, Abraham

Prof. Liang Song Ming

Mr. Lin Jinn Sin

Prof. Peter Hylands

Prof. Rudolf Bauer

Subsequent to the Review Period, on 23 March 2016, Prof. Bruce Robinson was appointed as a member of Scientific Advisory Committee, which comprises seven individuals since then.

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 period from the Listing Date to 31 December 2015, there is no meeting held for the Scientific Advisory Committee.

D. Model Code for Securities

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by directors. 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 from the Listing Date to 31 December 2015.



E. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the Financial Statements is set out in the "Independent Auditor's Report" on pages E59 to E60.

For the year ended 31 December 2015, the fees paid/payable to Ernst & Young for the audit service are HK\$1,200,000.

Fees paid/payable to Ernst & Young for non-audit services provided to the Group for the year was HK\$1,613,000. The non-audit services were mainly for reviewing of the Group's interim results and providing advice on matters in relation to taxation and internal controls.

F. Internal Controls

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

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

During the year ended 31 December 2015, the Audit Committee, which was delegated by the Board, has reviewed and evaluated the effectiveness of the internal control system of the Group. The review has covered the financial reporting process and risk management aspects of the Group. The review was made by discussions with the management of the Company and its external auditors. The Audit Committee believes that the existing internal control system is adequate and effective.

G. Communications with Shareholders and Investors

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

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



CORPORATE GOVERNANCE REPORT (continued)

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

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

H. Shareholder Rights

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

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

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

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

Email: info@purapharm.com

Tel: (852) 2840 1840

Fax: (852) 2840 0778

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



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

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

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

I. Company Secretary

Mr. Cheng Hok Kai, Frederick was appointed by the Board as the company secretary of the Company with effect from 30 December 2013. He is also managing director of corporate finance and investment of the Group and he reports to the chairman and chief executive officer. All Directors have access to the advice and services of the company secretary of the Company to ensure the Board procedures, and all applicable law, rules and regulations, are followed. For the financial year ended 31 December 2015, Mr. Cheng Hok Kai, Frederick had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.





REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages E27 to E34 of this annual report. This discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the Group's financial position at that date are set out in the financial statements on pages E61 to E149.

The Board recommends the payment of a final dividend of HK8.89 cents per share of the Company for the year ended 31 December 2015 to the shareholders of the Company (the "2015 Final Dividend"). Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting, the 2015 Final Dividend will be paid to shareholders whose names appear on the register of members of the Company on 2 June 2016.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The 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 2015, the Group had utilised approximately HK\$56.2 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	Approximate amount of net proceeds (in HK\$ million)	Approximate percentage of net proceeds	Approximate amount utilized (in HK\$ million)
To expand manufacturing facilities and enhance existing production lines	86.5	30%	8.3
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	12.4
To expand distribution network into new target cities in the PRC	57.7	20%	4.6
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	2.1
Additional working capital of the Group	28.8	10%	28.8
	288.4	100%	56.2



REPORT OF THE DIRECTORS (continued)

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the audited financial statements, and an analysis of the Group's performance using financial key performance indicators is set out on page E150 to E151. This summary does not form part of the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital and share options during the year are set out in notes 26 and 27 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save for the capitalisation issue which took place on the Listing Date, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the Listing Date up to 31 December 2015.

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 2015, the Company's reserves available for distribution amounted to approximately HK\$141,861,000, of which approximately HK\$20 million has been proposed as a final dividend for the year.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK\$3,545,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 24.0% (2014: 20.3%) of the total sales for the year and sales to the largest customer included therein amounted to 7.4% (2014: 5.9%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year (2014: 36.7%).

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



DIRECTORS

The directors of the Company during the year were:

Chairman:

Mr. Chan Yu Ling, Abraham

Executive directors:

Dr. Tsoi Kam Biu, Alvin

Mr. Leung Chin Man

Ms. Man Yee Wai, Viola

Non-executive directors:

Mr. Chan Kin Man, Eddie

Dr. Chan Kin Keung, Eugene*

Mr. Ho Kwok Wah, George*

Dr. Leung Lim Kin, Simon*

Prof. Tsui Lap Chee*

* *Independent non-executive directors*

In accordance with articles 108 of the Company's articles of association, each of the directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors and independent non-executive directors are appointed for periods of three years.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages E5 to E12 of the annual report.



REPORT OF THE DIRECTORS (continued)

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

PERMITTED INDEMNITY PROVISION

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



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

As at 31 December 2015, the board of directors of the Company ("Directors") and chief executives of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Nature of Interest	Number of Shares held or interested ⁽¹⁾	Percentage of the Company's issued share capital
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Interest of controlled corporations	128,852,500(L) ⁽²⁾⁽³⁾	57.27%
	Interest of spouse	51,566,500(L) ⁽⁴⁾	22.92%
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Interest of a controlled corporation	51,566,500(L) ⁽⁵⁾	22.92%
	Interest of spouse	128,852,500(L) ⁽⁶⁾	57.27%
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Interest of controlled corporations	3,125,000(L) ⁽⁷⁾	1.39%

Notes:

- The letter "L" denotes the person's long position in such securities.
- Mr. Abraham Chan beneficially owns the 50% of the issued share capital of Joint Partners Investments Limited ("Joint Partners"), which in turn wholly owns the 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.
- Mr. Abraham Chan wholly owns the issued share capital of Fullgold Development Limited ("Fullgold Development"), which in turn owns 77,286,000 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Fullgold Development.
- 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.
- Ms. Viola Man beneficially owns the 50% of the issued share capital of Joint Partners, which in turn wholly owns the issued share 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.
- 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.
- Mr. Eddie Chan wholly owns the 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.



REPORT OF THE DIRECTORS (continued)

Save as disclosed above, as at the Listing Date, none of the Directors, chief executives of the Company and/or their respective associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2015, 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)	22.92%
Joint Partners	Interest of a controlled corporation	51,566,500(L) ⁽²⁾	22.92%
Fullgold Development	Beneficial owner	77,286,000(L)	34.35%

Notes:

1. The letter "L" denotes the person's long position in such securities.
2. PuraPharm Corp is wholly owned by Joint Partners. By virtue of the SFO, Joint Partners is deemed to be interested in the Shares held by PuraPharm Corp.

Save as disclosed above, as at the Listing Date, 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 27 to the financial statements .

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

CONNECTED TRANSACTIONS

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

Continuing connected transactions

On 18 June 2015, our Company entered into a master purchase agreement (the "Master Purchase Agreement") with Gold Sparkle Plantation Holdings Limited ("Gold Sparkle Plantation"), pursuant to which the Group agreed to purchase raw Chinese herbs from Gold Sparkle Plantation or its subsidiaries ("Gold Sparkle Plantation Group") for a term commencing from 1 January 2015 to 31 December 2017. Gold Sparkle Plantation is indirectly wholly owned by Mr. Chan Yu Ling, Abraham, the Company's Director and controlling shareholder. During the year ended 31 December 2015, the Group purchase raw Chinese herbs of HK\$3,950,000 from Gold Sparkle Plantation Group, which was within the annual cap of HK\$4.0 million for the same period.

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

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



REPORT OF THE DIRECTORS (continued)

The related party transactions set out in note 32 to the financial statement constitute continuing connected transactions of the Company and the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

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

CONTRACT OF SIGNIFICANCE

Save as disclosed in note 32 to the financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 37 to the financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD

Chan Yu Ling, Abraham
Chairman

Hong Kong
23 March 2016





INDEPENDENT AUDITORS' REPORT



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of PuraPharm Corporation Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of PuraPharm Corporation Limited (the "Company") and its subsidiaries set out on pages E61 to E149, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

23 March 2016



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
REVENUE	5	473,900	366,352
Cost of sales		(168,168)	(134,241)
Gross profit		305,732	232,111
Other income and gains	5	8,212	5,794
Selling and distribution expenses		(140,214)	(99,176)
Administrative expenses		(119,376)	(81,028)
Other expenses		(3,977)	(2,307)
Finance costs	7	(10,243)	(13,064)
PROFIT BEFORE TAX	6	40,134	42,330
Income tax expense	10	(11,676)	(7,823)
PROFIT FOR THE YEAR		28,458	34,507
Attributable to:			
Owners of the parent		28,458	34,463
Non-controlling interests		–	44
		28,458	34,507
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted (expressed in HK\$ per share)		0.15	74.54



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
PROFIT FOR THE YEAR	28,458	34,507
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(212)	297
Income tax effect	35	(49)
	(177)	248
Exchange differences on translation of foreign operations	(9,306)	(2,054)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(9,483)	(1,806)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	18,975	32,701
Attributable to:		
Owners of the parent	18,975	32,657
Non-controlling interests	–	44
	18,975	32,701



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	93,713	77,729
Prepaid land lease payments	14	25,253	2,832
Intangible assets	15	8,939	7,134
Available-for-sale investments	16	13,348	10,531
Prepayments for non-current assets	19	8,035	11,431
Deferred tax assets	25	6,872	5,047
Total non-current assets		156,160	114,704
CURRENT ASSETS			
Inventories	17	107,987	89,893
Trade and bills receivables	18	161,018	103,098
Prepayments, deposits and other receivables	19	33,924	33,184
Due from a director	32(c)	–	11,822
Due from a related company	32(c)	–	240
Pledged bank deposits	20	6,000	20,633
Cash and cash equivalents	20	232,243	46,736
Total current assets		541,172	305,606
CURRENT LIABILITIES			
Trade payables	21	38,091	44,546
Other payables and accruals	22	56,468	37,688
Interest-bearing bank borrowings	23	125,431	182,692
Due to the immediate holding company	32(c)	–	12,365
Tax payable		4,668	3,780
Government grants	24	1,294	1,504
Total current liabilities		225,952	282,575
NET CURRENT ASSETS		315,220	23,031
TOTAL ASSETS LESS CURRENT LIABILITIES		471,380	137,735



Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		471,380	137,735
NON-CURRENT LIABILITIES			
Government grants	24	1,497	1,909
Deferred tax liabilities	25	173	13
Total non-current liabilities		1,670	1,922
Net assets		469,710	135,813
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	174,375	30,000
Reserves	28	295,335	105,689
		469,710	135,689
Non-controlling interests		–	124
Total equity		469,710	135,813

Director

Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent									
	Share capital HK\$'000 (note 26)	Merger reserve HK\$'000 (note 28)	Surplus reserves HK\$'000 (note 28)	Capital reserve HK\$'000 (note 28)	Available-for-sale investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2014	-	1,814	16,346	(7,624)	53	11,640	50,803	73,032	80	73,112
Profit for the year	-	-	-	-	-	-	34,463	34,463	44	34,507
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	248	-	-	248	-	248
Exchange differences on translation of foreign operations	-	-	-	-	-	(2,054)	-	(2,054)	-	(2,054)
Total comprehensive income for the year	-	-	-	-	248	(2,054)	34,463	32,657	44	32,701
Issue of shares	30,000	-	-	-	-	-	-	30,000	-	30,000
Transfer from retained profits	-	-	3,586	-	-	-	(3,586)	-	-	-
At 31 December 2014	30,000	1,814*	19,932*	(7,624)*	301*	9,586*	81,680*	135,689	124	135,813



	Attributable to owners of the parent										
	Share capital HK\$'000 (note 26)	Share premium account HK\$'000 (note 26)	Merger reserve HK\$'000 (note 28)	Surplus reserves HK\$'000 (note 28)	Capital reserve HK\$'000 (note 28)	Available-for-sale investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2015	30,000	-	1,814	19,932	(7,624)	301	9,586	81,680	135,689	124	135,813
Profit for the year	-	-	-	-	-	-	-	28,458	28,458	-	28,458
Other comprehensive income for the year:											
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	(177)	-	-	(177)	-	(177)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(9,306)	-	(9,306)	-	(9,306)
Total comprehensive income for the year	-	-	-	-	-	(177)	(9,306)	28,458	18,975	-	18,975
Issue of shares	43,594	292,781	-	-	-	-	-	-	336,375	-	336,375
Share issue expenses	-	(21,448)	-	-	-	-	-	-	(21,448)	-	(21,448)
Capitalisation Issue	100,781	(100,781)	-	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	4,753	-	-	-	(4,753)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	119	-	-	-	119	(124)	(5)
At 31 December 2015	174,375	170,552*	1,814*	24,685*	(7,505)*	124*	280*	105,385*	469,710	-	469,710

* These reserve accounts comprise the consolidated reserves of HK\$295,335,000(2014: HK\$105,689,000) in the consolidated statement of financial position as at 31 December 2015.



CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		40,134	42,330
Adjustments for:			
Finance costs	7	10,243	13,064
Bank interest income		(833)	(714)
Foreign exchange gain, net		(150)	(780)
Loss on disposal of items of property, plant and equipment		143	245
Depreciation	13	12,110	12,749
Amortisation of prepaid land lease payments	14	395	77
Amortisation of intangible assets	15	1,117	837
Impairment of trade and bills receivables	18	1,522	–
Write-down of inventories to net realisable value		3,183	2,450
		67,864	70,258
Increase in inventories		(21,669)	(24,564)
Increase in trade and bills receivables		(59,298)	(3,268)
(Increase)/decrease in prepayments, deposits and other receivables		1,222	(18,839)
Increase/(decrease) in trade payables		(6,455)	15,732
Decrease in government grants		(622)	(660)
Increase/(decrease) in other payables and accruals		17,978	(2,048)
Cash generated from/(used in) operations		(980)	36,611
Interest received		833	714
Hong Kong profits tax paid		(2,976)	(3,551)
Overseas profit taxes paid		(9,447)	(2,683)
Net cash flows from/(used in) operating activities		(12,570)	31,091



Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(28,415)	(8,586)
Proceeds from disposal of items of property, plant and equipment		1,164	457
Receipt of government grants		–	755
Addition to prepaid land lease payments		(24,145)	(9,678)
Additions to intangible assets		(4,666)	(2,757)
Advance to a director		(432)	(2,878)
Repayment from a director		254	3,312
Repayments from/(to) related companies		240	(416)
Advances to the immediate holding company		(365)	(71)
Purchases of available-for-sale investments		(3,028)	–
Increase/(decrease) in pledged time deposits, net		14,633	(4,772)
Net cash flows used in investing activities		(44,760)	(24,634)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	26	336,375	30,000
Share issue expenses	26	(21,448)	–
New bank loans		327,765	286,323
Repayment of bank loans		(364,652)	(303,518)
Interest paid		(10,243)	(13,064)
Net cash flows from/(used in) financing activities		267,797	(259)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		30,675	25,039
Effect of foreign exchange rate changes, net		(8,899)	(562)
CASH AND CASH EQUIVALENTS AT END OF YEAR		232,243	30,675
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	232,243	46,736
Bank overdrafts	23	–	(16,061)
Cash and cash equivalents as stated in the statement of cash flows		232,243	30,675



NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

PuraPharm Corporation Limited (the "Company") was incorporated as an exempted company with limited liability under the Companies Law, Cap, 22 of the Cayman Islands on 2 December 2011. The registered office address is Scotia Centre, 4th Floor, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands.

The Company is an investment holding company. During the year, the Company and its subsidiaries (the "Group") have been principally engaged in the research and development, production and sale of concentrated Chinese medicine granule ("CCMG") products and Chinese healthcare products, as well as rendering of Chinese medical diagnostic services.

In the opinion of the board (the "Board") of directors (the "Directors"), the ultimate holding company of the company is Fullgold Development Limited, which was incorporated in the British Virgin Islands (the "BVI").

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

As at 31 December 2015, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated/registered outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of the principal subsidiaries are set out below:

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
PuraPharm Holdings Limited ^(a)	22/12/2010	BVI	US\$1	100%	-	Investment holding
Natural Corporation Limited ^(a)	9/7/1997	Hong Kong	HK\$100	-	100%	Trading of Chinese healthcare products
PuraPharm International (H.K.) Limited ^(b)	4/5/1998	Hong Kong	HK\$2,000,000	-	100%	Manufacture and trading of Chinese healthcare products



1. CORPORATE AND GROUP INFORMATION (continued)

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Nong's International Limited ^(a)	5/5/1998	BVI	US\$1	-	100%	Investment holding and trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm (Nanning) Pharmaceuticals Co. Limited ^{(a),(c)}	19/8/1998	People's Republic of China ("PRC")/ Mainland China	RMB30,000,000	-	100%	Manufacture and trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm International (Singapore) Pte Limited ^(a)	23/5/2000	Singapore	SG\$2	-	100%	Trading of Chinese healthcare products
PuraPharm Corporation ^(a)	22/6/2000	United States of America	US\$1,000	-	100%	Trading of Chinese healthcare products
Nong's Corporation Limited ^(a)	22/8/2000	BVI	US\$25,019	-	100%	Investment holding
Purapharm Research Corporation Limited ^(a)	17/9/2001	Hong Kong	HK\$10,000	-	100%	Research and development of modernised Chinese medicines
PuraPharm International Limited ^(a)	22/5/2002	Hong Kong	HK\$2	-	100%	Trading of Chinese healthcare products
Nong's Company Limited ^(b)	26/6/2002	Hong Kong	HK\$2	-	100%	Trading of modernised Chinese medicines



NOTES TO FINANCIAL STATEMENTS (continued)

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Nong's Chinese Medicine Health Care Centre Limited ^(a)	27/12/2002	Hong Kong	HK\$10,000	–	100%	Provision of Chinese medical diagnostic services
Poly Modern TCM Research Institute Limited ^(a)	19/3/2003	Hong Kong	HK\$48,160,000	–	100%	Trading of Chinese healthcare products
Nong's Clinic Holdings Limited ^(a)	19/8/2003	BVI	US\$1,283	–	100%	Investment holding
Nong's Chinese Medicine Clinic Centre Limited ^(a)	15/10/2003	Hong Kong	HK\$2	–	100%	Provision of Chinese medical diagnostic services
PuraPharm Investment Limited ^(a)	24/5/2006	Hong Kong	HK\$1	–	100%	Trading of Chinese medicines
PuraPharm Australia Pty Ltd ^(a)	17/6/2010	Australia	AU\$1	–	100%	Trading of Chinese healthcare products
PuraPharm Health Limited ^(a)	22/12/2010	BVI	US\$1	–	100%	Investment holding
PuraPharm (Macao) Limited ^(a)	3/8/2012	Macao	MOP25,000	–	100%	Trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm Canada Corporation ^(a)	3/8/2012	Canada	HK\$100	–	100%	Trading of Chinese healthcare products



1. CORPORATE AND GROUP INFORMATION (continued)

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Nong's Healthcare 1 Limited ^(a)	24/2/2014	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 2 Limited ^(a)	24/2/2014	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 3 Limited ^(a)	29/5/2014	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 4 Limited ^(a)	29/5/2014	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 5 Limited ^(a)	23/9/2014	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's (Guangxi) Company Limited ^(a)	29/9/2014	Hong Kong	HK\$10,000	-	100%	Investment holding
Nong's Healthcare 6 Limited ^(a)	23/9/2014	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 7 Limited ^(a)	23/9/2014	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services



NOTES TO FINANCIAL STATEMENTS (continued)

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Nong's Healthcare 8 Limited ^(a)	8/12/2014	Hong Kong	HK\$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 9 Limited ^(a)	8/12/2014	Hong Kong	HK\$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 10 Limited ^(a)	8/12/2014	Hong Kong	HK\$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 11 Limited ^(a)	8/12/2014	Hong Kong	HK\$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 12 Limited ^(a)	8/12/2014	Hong Kong	HK\$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 13 Limited ^(a)	13/1/2015	Hong Kong	HK\$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 14 Limited ^(a)	13/1/2015	Hong Kong	HK\$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 15 Limited ^(a)	14/1/2015	Hong Kong	HK\$1	–	100%	Provision of Chinese medical diagnostic services



1. CORPORATE AND GROUP INFORMATION (continued)

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Nong's Healthcare 16 Limited ^(a)	13/1/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 17 Limited ^(a)	13/1/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 18 Limited ^(a)	13/1/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 19 Limited ^(a)	13/1/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
南寧培力醫藥技術有限公司 ^{(a),(c)}	2/2/2015	PRC/Mainland China	RMB2,000,000	-	100%	Research and development of Chinese healthcare products and modernised Chinese medicines
Nong's Healthcare 20 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 21 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services



NOTES TO FINANCIAL STATEMENTS (continued)

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Nong's Healthcare 22 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 23 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 24 Limited ^(a)	25/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 25 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 26 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 27 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services



1. CORPORATE AND GROUP INFORMATION (continued)

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Nong's Healthcare 28 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 29 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 30 Limited ^(a)	24/2/2015	Hong Kong	HK\$1	-	100%	Provision of Chinese medical diagnostic 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) Registered as wholly-foreign-owned enterprises under the laws of the PRC.



NOTES TO FINANCIAL STATEMENTS

(continued)

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

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

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



2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

- (a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.
- (b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
 - *HKFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.



NOTES TO FINANCIAL STATEMENTS (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.
- HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.
- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.
- HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the acquisition of investment properties during the year was not a business combination and so this amendment is not applicable.



2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

In addition, the Company has adopted the amendments to the Rules Governing the Listing of securities on the Stock Exchange (the "Listing Rules") relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 9	<i>Financial Instruments</i> ²
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
HKFRS 14	<i>Regulatory Deferral Accounts</i> ³
HKFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to HKAS 1	<i>Disclosure Initiative</i> ¹
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ¹
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of HKFRSs</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁴ No mandatory effective date yet determined but is available for adoption

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



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

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

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



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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;



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) (continued)

- (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;
- (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.

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%

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.



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

Intangible assets (other than goodwill)

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

Trademarks, patents, licences and software

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

Research and development costs

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

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



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include available-for-sale investments, cash and cash equivalents, pledged bank deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables and amounts due from a director and related companies.

Subsequent measurement

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



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

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

Available-for-sale financial investments

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

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

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

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



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Impairment of financial assets

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



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, an amount due to the immediate holding company and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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.



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- * when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- * in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

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



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the relevant services have been rendered and it is probable that economic benefits will flow to the Group and the revenue can be measured reliably; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

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.



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the Directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

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).



NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 the presentation currency of the Company 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 certain 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.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Financial Information:

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.



3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised for certain deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2015, the balance of deferred tax assets relating to recognised deductible temporary differences amounted to HK\$7,936,000 (2014: HK\$6,088,000). Further details are contained in note 25 to the financial statements.

Useful lives and residual values of property, plant and equipment

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



NOTES TO FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade and other receivables

The policy for provision for impairment loss of the Group is based on the evaluation of collectability, the aged analysis of trade and other receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2015, the provision for impairment of trade and other receivables amounted to HK\$1,029,000 (2014: HK\$338,000).

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. As at 31 December 2015, the provision for write-down of inventories to net realisable value amounted to HK\$4,578,000 (2014:HK\$3,748,000).

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair value changes in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. As at 31 December 2015, the carrying amount of available-for-sale financial assets was HK\$13,348,000 (2014: HK\$10,531,000).



4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four 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 and China; and
- (d) the clinics segment mainly engages in the provision of Chinese medical diagnostic services and sale of CCMG products through self-operated clinics.

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

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

As compared with the segment information included in the audited financial statements for the year ended 31 December 2014, the sales of CCMG products through self-operated clinics were separately accounted for in the clinics segment for the year ended 31 December 2015. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosure.

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2015 and 2014.



NOTES TO FINANCIAL STATEMENTS (continued)

4. OPERATING SEGMENT INFORMATION (continued)

31 December 2015

	Chinese CCMG HK\$'000	Hong Kong CCMG HK\$'000	China healthcare products HK\$'000	Clinics HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue:						
Revenue to external customers	251,580	156,066	47,664	18,590	-	473,900
Intersegment sales	94,443	6,554	3,013	-	(104,010)	-
	346,023	162,620	50,677	18,590	(104,010)	473,900
Segment results	74,627	34,642	4,029	(11,056)	-	102,242
<i>Reconciliations:</i>						
Government grants						5,567
Interest income						833
Foreign exchange gain, net						150
Finance costs						(10,243)
Corporate and other unallocated expenses						(39,416)
Listing expenses						(18,999)
Profit before tax						40,134
Income tax expense						(11,676)
Net profit						28,458
Other segment information:						
Depreciation and amortisation	10,021	1,696	935	970	-	13,622
Provision for impairment of inventories	3,101	58	24	-	-	3,183
Provision for impairment of trade and bills receivables	699	-	823	-	-	1,522



4. OPERATING SEGMENT INFORMATION (continued)

31 December 2014

	China CCMG HK\$'000	Hong Kong CCMG HK\$'000 (Restated)	Chinese healthcare products HK\$'000	Clinics HK\$'000 (Restated)	Elimination HK\$'000	Total HK\$'000
Segment revenue:						
Revenue to external customers	175,240	145,234	40,069	5,809	–	366,352
Intersegment sales	81,628	3,058	7,242	–	(91,928)	–
	256,868	148,292	47,311	5,809	(91,928)	366,352
Segment results	44,616	31,651	8,974	3,740	–	88,981
<i>Reconciliations:</i>						
Government grants						3,663
Interest income						714
Foreign exchange gain, net						780
Finance costs						(13,064)
Corporate and other unallocated expenses						(32,993)
Listing expenses						(5,751)
Profit before tax						42,330
Income tax expense						(7,823)
Net profit						34,507
Other segment information:						
Depreciation and amortisation	10,802	1,680	836	345	–	13,663
Provision for impairment of inventories	2,199	30	221	–	–	2,450



NOTES TO FINANCIAL STATEMENTS (continued)

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2015 HK\$'000	2014 HK\$'000
Hong Kong	219,440	191,029
Mainland China	254,460	175,323
	473,900	366,352

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

(b) Non-current assets

	2015 HK\$'000	2014 HK\$'000
Hong Kong	25,808	12,059
Mainland China	110,132	87,067
	135,940	99,126

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

Information about a major customer

For the years ended 31 December 2015 and 2014, there was no single customer from which more than 10% of the Group's total revenue was derived.



5. REVENUE, OTHER INCOME AND GAINS

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

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

	2015 HK\$'000	2014 HK\$'000
Revenue		
Sale of goods	468,665	364,894
Rendering of services	5,235	1,458
	473,900	366,352
Other income and gains		
Government grants* (note 24)	5,567	3,663
Bank interest income	833	714
Gain from the sale of equipment and accessories	1,522	429
Foreign exchange gain, net	150	780
Others	140	208
	8,212	5,794

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



NOTES TO FINANCIAL STATEMENTS (continued)

6. PROFIT BEFORE TAX

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

	Notes	2015 HK\$'000	2014 HK\$'000
Cost of inventories sold*		165,628	133,581
Cost of services provided		2,540	660
Depreciation	13	12,110	12,749
Amortisation of intangible assets	15	1,117	837
Research and development costs**		15,603	16,133
Minimum lease payments under operating leases:			
Office equipment		190	152
Land and buildings		13,089	8,114
		13,279	8,266
Amortisation of land lease payments	14	395	77
Auditors' remuneration		2,042	1,102
Listing expense		18,999	5,751
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		80,042	58,174
Pension scheme contributions		11,512	8,212
		91,554	66,386
Foreign exchange gain, net***		(150)	(780)
Impairment of trade and bills receivables		1,522	–
Write-down of inventories to net realisable value		3,183	2,450
Loss on disposal of items of property, plant and equipment		143	245

* Included in the cost of inventories sold, HK\$3,183,000 (2014: HK\$2,450,000) is disclosed in the item of "Write-down of inventories to net realisable value" above for the year ended 31 December 2015.

** Included in the research and development costs, HK\$714,000 (2014: HK\$1,005,000) is disclosed in the item of "Depreciation" and HK\$7,000,000 (2014: HK\$5,751,000) is disclosed in the item of "Employee benefit expense" above for the year ended 31 December 2015.

*** The foreign exchange gain, net is included in "Other income and gains" in the consolidated statement of profit or loss.



7. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 HK\$'000	2014 HK\$'000
Interest on bank loans and overdrafts	10,243	13,064

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (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:

	2015 HK\$'000	2014 HK\$'000
Fees	500	–
Other emoluments:		
Salaries, allowances and benefits in kind	9,153	8,795
Pension scheme contributions	54	51
	9,207	8,846
	9,707	8,846

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2015 HK\$'000	2014 HK\$'000
Dr. Leung Lim Kin, Simon	100	–
Prof. Tsui Lap Chee	100	–
Dr. Chan Kin Keung, Eugene	100	–
Mr. Ho Kwok Wah, George	100	–
	400	–

There were no other emoluments payable to the independent non-executive directors during the years 2015 and 2014.



NOTES TO FINANCIAL STATEMENTS

(continued)

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension contributions scheme HK\$'000	Total remuneration HK\$'000
2015				
Chief executive and executive director				
Mr. Chan Yu Ling, Abraham	–	3,905	18	3,923
Executive directors				
Ms. Man Yee Wai, Viola	–	1,315	18	1,333
Dr. Tsoi Kam Biu, Alvin	–	1,776	18	1,794
Mr. Leung Chin Man	–	2,157	–	2,157
	–	5,248	36	5,284
Non-executive director				
Mr. Chan Kin Man, Eddie	100	–	–	100
	100	9,153	54	9,307



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

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

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension contributions scheme HK\$'000	Total remuneration HK\$'000
2014				
Chief executive and executive director				
Mr. Chan Yu Ling, Abraham	–	3,708	17	3,725
Executive directors				
Ms. Man Yee Wai, Viola	–	1,162	17	1,179
Dr. Tsoi Kam Biu, Alvin	–	1,606	17	1,623
Mr. Leung Chin Man	–	2,319	–	2,319
	–	5,087	34	5,121
Non-executive director				
Mr. Chan Kin Man, Eddie	–	–	–	–
	–	8,795	51	8,846

There was no arrangement under which executive directors waived or agreed to waive any remuneration during the years 2015 and 2014.



NOTES TO FINANCIAL STATEMENTS

(continued)

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year 2015 included 3 Directors (2014: 4 Directors), details of whose remuneration is set out in note 8 above. Details of the remuneration for the year of the remaining 2 (2014: 1) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries, allowances and benefits in kind	3,701	1,774
Pension scheme contributions	36	17
	3,737	1,791

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

	Number of employees	
	2015	2014
HK\$1,500,001 to HK\$2,000,000	2	1

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 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% on the estimated assessable profits arising in Hong Kong during the years ended 31 December 2015 and 2014. 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 subject to a preferential income tax rate of 15%.

	2015 HK\$'000	2014 HK\$'000
Current	13,393	8,010
Deferred (note 25)	(1,717)	(187)
Total tax charge for the year	11,676	7,823



10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions 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:

2015

	Mainland China		Hong Kong		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	72,487		(30,248)		(2,105)		40,134	
Tax at the statutory tax rates	18,122	25.0	(4,991)	16.5	(9)	0.4	13,122	32.7
Lower tax rate for specific province or enacted by local authority	(7,304)	(10.0)	-	-	-	-	(7,304)	(18.2)
Adjustment in respect of current tax of previous years	-	-	46	(0.2)	-	-	46	0.1
Income not subject to tax	-	-	(8)	-	-	-	(8)	-
Expenses not deductible for tax	731	1.0	3,207	(10.6)	-	-	3,938	9.8
Tax losses not recognised	-	-	1,873	(6.2)	9	(0.4)	1,882	4.7
Tax charge at the Group's effective rate	11,549	15.9	127	(0.4)	-	-	11,676	29.1



NOTES TO FINANCIAL STATEMENTS (continued)

10. INCOME TAX (continued)

2014

	Mainland China		Hong Kong		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	30,591		14,471		(2,732)		42,330	
Tax at the statutory tax rates	7,647	25.0	2,388	16.5	(13)	0.5	10,022	23.6
Lower tax rate for specific province or enacted by local authority	(3,059)	(10.0)	-	-	-	-	(3,059)	(7.2)
Income not subject to tax	(303)	(1.0)	(43)	(0.3)	-	-	(346)	(0.8)
Expenses not deductible for tax	187	0.6	914	6.3	-	-	1,101	2.6
Tax losses not recognised	-	-	92	0.6	13	(0.5)	105	0.2
Tax charge at the Group's effective rate	4,472	14.6	3,351	23.1	-	-	7,823	18.5

11. DIVIDENDS

	2015 HK\$'000	2014 HK\$'000
Proposed final — HK8.89 cents (2014: Nil) per ordinary share	20,003	-

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.



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

	2015 HK\$	2014 HK\$
Earnings per share attributable to ordinary equity holders of the parent — Basic and diluted	0.15	74.54

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of shares in issue during the year as follows:

The calculation of basic earnings per share is based on:

	2015 HK\$'000	2014 HK\$'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	28,458	34,463

The calculation of the weighted average number of ordinary shares amounting to 195,873,288 (2014: 462,372) in issue for the year ended 31 December 2015, as adjusted to reflect the Subdivision of Shares on 12 June 2015 (the "Subdivision of Shares") (note 26) and Capitalisation Issue on 8 July 2015 (note 26), is as follows:

	Note	2015	2014
Issue of share on 2 December 2011		1	1
Issue of shares on 31 December 2014	26	3,870,967	10,605
Effect of the Subdivision of Shares on 12 June 2015	26	34,838,712	95,458
Effect of Initial Public Offering on 8 July 2015	26	27,123,288	—
Effect of Capitalisation Issue on 8 July 2015	26	130,040,320	356,308
Weighted average number of ordinary shares		195,873,288	462,372

No adjustment has been made to the basic earnings per share amounts presented for the years 2015 and 2014 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during those years.



NOTES TO FINANCIAL STATEMENTS (continued)

13. PROPERTY, PLANT AND EQUIPMENT

	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 2015							
At 31 December 2014 and at 1 January 2015:							
Cost	28,566	6,605	81,623	15,074	3,027	2,851	137,746
Accumulated depreciation	(4,498)	(4,064)	(37,999)	(11,927)	(1,529)	-	(60,017)
Net carrying amount	24,068	2,541	43,624	3,147	1,498	2,851	77,729
Cost at 1 January 2015, net of accumulated depreciation							
	24,068	2,541	43,624	3,147	1,498	2,851	77,729
Additions	-	11,407	4,887	3,344	2,547	10,590	32,775
Disposals	-	(12)	(221)	(1,075)	-	-	(1,308)
Depreciation provided during the year	(809)	(2,027)	(7,927)	(967)	(380)	-	(12,110)
Transfers	48	-	1,151	-	-	(1,199)	-
Exchange realignment	(1,062)	-	(1,845)	(82)	(32)	(352)	(3,373)
At 31 December 2015	22,245	11,909	39,669	4,367	3,633	11,890	93,713
At 31 December 2015:							
Cost	27,324	17,971	83,019	16,660	5,532	11,890	162,396
Accumulated depreciation	(5,079)	(6,062)	(43,350)	(12,293)	(1,899)	-	(68,683)
Net carrying amount	22,245	11,909	39,669	4,367	3,633	11,890	93,713



13. PROPERTY, PLANT AND EQUIPMENT (continued)

	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 2014							
At 31 December 2013 and at 1 January 2014:							
Cost	26,852	4,893	80,421	14,854	3,128	2,466	132,614
Accumulated depreciation	(3,866)	(3,054)	(33,137)	(10,178)	(1,685)	-	(51,920)
Net carrying amount	22,986	1,839	47,284	4,676	1,443	2,466	80,694
Cost at 1 January 2014, net of accumulated depreciation							
	22,986	1,839	47,284	4,676	1,443	2,466	80,694
Additions	895	1,711	4,535	395	713	3,254	11,503
Disposals	-	-	(563)	(9)	(120)	(11)	(703)
Depreciation provided during the year	(692)	(1,009)	(8,653)	(1,869)	(526)	-	(12,749)
Transfers	1,208	-	1,636	-	-	(2,844)	-
Exchange realignment	(329)	-	(615)	(46)	(12)	(14)	(1,016)
At 31 December 2014	24,068	2,541	43,624	3,147	1,498	2,851	77,729
At 31 December 2014:							
Cost	28,566	6,605	81,623	15,074	3,027	2,851	137,746
Accumulated depreciation	(4,498)	(4,064)	(37,999)	(11,927)	(1,529)	-	(60,017)
Net carrying amount	24,068	2,541	43,624	3,147	1,498	2,851	77,729

As at 31 December 2015, certain of the Group's buildings, machinery and equipment and office equipment and furniture with an aggregate net carrying amount of approximately HK\$56,161,000 (2014: HK\$54,335,000) were pledged to secure bank loans granted to the Group (note 23).



NOTES TO FINANCIAL STATEMENTS (continued)

14. PREPAID LAND LEASE PAYMENTS

	2015 HK\$'000	2014 HK\$'000
Carrying amount at 1 January	2,909	3,030
Addition	24,145	–
Amortised during the year	(395)	(77)
Exchange realignment	(870)	(44)
Carrying amount at 31 December	25,789	2,909
Current portion included in prepayments, deposits and other receivables	(536)	(77)
Non-current portion	25,253	2,832

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

As at 31 December 2015, certain of the Group's leasehold land with a net carrying amount of approximately HK\$2,704,000 (2014: HK\$2,909,000) were pledged to secure bank loans granted to the Group (note 23).



15. INTANGIBLE ASSETS

	Trademarks HK\$'000	Patents HK\$'000	Licences HK\$'000	Software HK\$'000	Total HK\$'000
31 December 2015					
At 31 December 2014 and at 1 January 2015:					
Cost	8,892	354	1,281	1,366	11,893
Accumulated amortisation	(2,839)	(159)	(1,281)	(480)	(4,759)
Net carrying amount	6,053	195	–	886	7,134
Cost at 1 January 2015, net of accumulated amortisation	6,053	195	–	886	7,134
Additions	1,946	247	–	751	2,944
Amortisation provided during the year	(673)	(217)	–	(227)	(1,117)
Exchange realignment	–	–	–	(22)	(22)
At 31 December 2015	7,326	225	–	1,388	8,939
At 31 December 2015:					
Cost	10,843	601	1,281	2,062	14,787
Accumulated amortisation	(3,517)	(376)	(1,281)	(674)	(5,848)
Net carrying amount	7,326	225	–	1,388	8,939
31 December 2014					
At 31 December 2013 and at 1 January 2014:					
Cost	6,884	349	1,281	613	9,127
Accumulated amortisation	(2,325)	(101)	(1,281)	(198)	(3,905)
Net carrying amount	4,559	248	–	415	5,222
Cost at 1 January 2014, net of accumulated amortisation	4,559	248	–	415	5,222
Additions	2,005	6	–	746	2,757
Amortisation provided during the year	(511)	(59)	–	(267)	(837)
Exchange realignment	–	–	–	(8)	(8)
At 31 December 2014	6,053	195	–	886	7,134
At 31 December 2014:					
Cost	8,892	354	1,281	1,366	11,893
Accumulated amortisation	(2,839)	(159)	(1,281)	(480)	(4,759)
Net carrying amount	6,053	195	–	886	7,134



NOTES TO FINANCIAL STATEMENTS

(continued)

16. AVAILABLE-FOR-SALE INVESTMENTS

	2015 HK\$'000	2014 HK\$'000
Life insurance policies, at fair value	13,348	10,531

The Group entered into three (2014: two) life insurance policies with the insurance companies to insure an executive director. Under these policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for these policies and may surrender any time by filing a written request and receive cash based on the surrender value of the policy at the date of withdrawal, which is calculated by the insurer. In the opinion of the Directors, the surrender values of the policies provided by the insurance companies are the best approximation of their fair values, which are categorised within Level 3 of the fair value hierarchy.

During the year, the gross gain (2014: gross loss) in respect of the changes in fair value of the Group's available-for-sale investments, net of tax, recognised in other comprehensive income amounted to HK\$177,000 (2014: HK\$248,000) .

As at 31 December 2015, the Group's available-for-sale investments with a fair value of HK\$10,849,000 (2014: HK\$10,531,000) were pledged as security for the loans granted to the Group (note 23).



17. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Raw materials	34,803	22,304
Work in progress	21,172	21,355
Finished goods	56,590	49,982
	112,565	93,641
Less: provision	(4,578)	(3,748)
	107,987	89,893

For the year ended 31 December 2015, the write-down of inventories recognised at cost of sales amounted to HK\$3,183,000 (2014: HK\$2,450,000).

At 31 December 2015, the Group's inventories with a carrying amount of HK\$35,819,000 (2014: HK\$37,515,000) were pledged as security for the loans granted to the Group (note 23).

18. TRADE AND BILLS RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Trade receivables	159,137	98,766
Bills receivable	2,910	4,670
	162,047	103,436
Less: impairment of trade and bills receivables	(1,029)	(338)
	161,018	103,098



NOTES TO FINANCIAL STATEMENTS

(continued)

18. TRADE AND BILLS RECEIVABLES (continued)

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

An aged analysis of the trade and bills receivables as at 31 December 2015 and 2014, based on the invoice date and net of impairment, is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 1 month	97,500	52,419
1 to 3 months	22,213	21,030
3 to 6 months	18,236	11,554
Over 6 months	23,069	18,095
	161,018	103,098

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

	2015 HK\$'000	2014 HK\$'000
At beginning of year	338	516
Impairment losses recognised (note 6)	1,522	–
Amount written off as uncollectible	(823)	(176)
Exchange realignment	(8)	(2)
	1,029	338



18. TRADE AND BILLS RECEIVABLES (continued)

At 31 December 2015, included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of HK\$1,029,000 (2014: HK\$338,000) with a carrying amounts before provision of HK\$1,029,000 (2014: HK\$338,000).

The individually impaired trade receivables relate to customers that were in default in principal payments.

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

	2015 HK\$'000	2014 HK\$'000
Neither past due nor impaired	101,455	67,128
Less than 1 month past due	26,144	11,342
1 to 2 months past due	6,219	3,088
2 to 3 months past due	3,904	2,220
Over 3 months past due	23,296	19,320
	161,018	103,098

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

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

At 31 December 2015, trade receivables amounting to HK\$17,037,000 (2014: HK\$14,243,000) were pledged as security for the Group's bank loans (note 23).



NOTES TO FINANCIAL STATEMENTS

(continued)

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Prepayments	29,788	36,275
Receivables from third party agents	3,003	3,035
Deposits and other receivables	9,420	5,562
	42,211	44,872
Less: impairment of other receivables	(252)	(257)
	41,959	44,615
Portion classified as non-current	(8,035)	(11,431)
Current portion	33,924	33,184

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	257	260
Exchange realignment	(5)	(3)
	252	257

Included in the above provision for impairment of other receivables is provision for individually impaired other receivable of HK\$252,000 (2014: HK\$257,000) with a carrying amount before provision of HK\$252,000 (2014: HK\$257,000). The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2015, prepayments, deposits and other receivables amounting to HK\$689,000 (2014: Nil) were pledged as security for the Group's bank loans (note 23).



20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	2015 HK\$'000	2014 HK\$'000
Cash and bank balances		232,243	46,736
Time deposits		6,000	20,633
		238,243	67,369
Less: Pledged time deposits for bank loans	23	(6,000)	(20,633)
Cash and cash equivalents		232,243	46,736
Denominated in RMB		40,985	16,691
Denominated in HK\$		191,258	30,045
Cash and cash equivalents		232,243	46,736

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

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



NOTES TO FINANCIAL STATEMENTS

(continued)

21. TRADE PAYABLES

An aged analysis of the trade and bills payables as at 31 December 2015 and 2014, based on the invoice date, is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 1 month	22,193	20,614
1 to 2 months	9,919	12,710
2 to 3 months	4,142	5,500
Over 3 months	1,837	5,722
	38,091	44,546

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

Included in the trade payables is an amount due to a related company of HK\$840,000 (2014: Nil) as at 31 December 2015, which is settled on the term of two months.

22. OTHER PAYABLES AND ACCRUALS

	2015 HK\$'000	2014 HK\$'000
Other payables	28,639	19,930
Accruals	22,325	16,244
Advance from customers	5,504	1,514
	56,468	37,688

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



23. INTEREST-BEARING BANK BORROWINGS

	2015			2014		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Bank overdrafts — secured (b)			–	4.75–6.00	On demand	16,061
Bank loans — secured (a)	2.87–7.80	On demand/ 2016	110,972	2.20–9.84	On demand/ 2015	166,631
Bank loans — unsecured (a)	2.66–6.00	On demand	14,459			–
			125,431			182,692

	2015 HK\$'000	2014 HK\$'000
Analysed into:		
Bank loans and overdrafts repayable: Within one year or on demand	125,431	182,692

Interest-bearing bank borrowings and overdrafts are denominated in:

	2015 HK\$'000	2014 HK\$'000
HK\$	33,973	78,788
RMB	91,458	94,928
US\$	–	8,976
	125,431	182,692



NOTES TO FINANCIAL STATEMENTS

(continued)

23. INTEREST-BEARING BANK BORROWINGS (continued)

- (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 and overdrafts of the Group in the amount of HK\$125,212,000 (2014: HK\$178,321,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$2,522,000 (2014: HK\$5,762,000) that is repayable after one year from the end of 2015 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 2015, the Group's overdraft facilities amounted to HK\$32,400,000 (2014: HK\$34,890,000), and no overdraft facility had been utilised (2014: HK\$16,061,000).
- (c) As at 31 December 2015, the Group's bank facilities including overdraft amounting to HK\$239,535,000 (2014: HK\$243,270,000), of which HK\$125,431,000 (2014: HK\$182,692,000) had been utilised.
- (d) The following assets were pledged as securities for interest-bearing bank borrowings:

	Notes	Carrying value	
		2015 HK\$'000	2014 HK\$'000
Property, plant and equipment	13	56,161	54,335
Prepaid land lease payments	14	2,704	2,909
Available-for-sale investments	16	10,849	10,531
Inventories	17	35,819	37,515
Trade and bills receivables	18	17,037	14,243
Prepayments, deposits and other receivables	19	689	—
Pledged bank deposits	20	6,000	20,633
		129,259	140,166

- (e) As at 31 December 2014, certain of the Group's bank loans were secured by related parties of the Group (note 32 (e)).
- (f) As at 31 December 2014, certain of the Group's bank loans were secured by the Government of the Hong Kong Special Administrative Region under the Special Loan Guarantee Scheme.



24. GOVERNMENT GRANTS

	2015 HK\$'000	2014 HK\$'000
At 1 January	3,413	3,361
Government grants received during the year	5,083	3,766
Amounts released to the statement of profit or loss (note 5)	(5,567)	(3,663)
Exchange realignment	(138)	(51)
At 31 December	2,791	3,413
Portion classified as current liabilities	(1,294)	(1,504)
Non-current portion	1,497	1,909

25. DEFERRED TAX

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

Deferred tax assets

	2015					Total HK\$'000
	Available- for-sale investment revaluation HK\$'000	Tax loss available for offsetting against future taxable profits HK\$'000	Government grants HK\$'000	Unrealised profit on inventories HK\$'000	Provisions for receivables and inventories HK\$'000	
At 1 January 2015	(31)	3,672	512	1,088	847	6,088
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	-	1,734	(75)	(17)	258	1,900
Deferred tax charged to other comprehensive income during the year	6	-	-	-	-	6
Exchange realignment	-	(3)	(19)	-	(36)	(58)
Gross deferred tax assets at 31 December 2015	(25)	5,403	418	1,071	1,069	7,936

NOTES TO FINANCIAL STATEMENTS (continued)

25. DEFERRED TAX (continued)

Deferred tax assets (continued)

	2014					
	Available- for-sale investment revaluation HK\$'000	Tax loss available for offsetting against future taxable profits HK\$'000	Government grants HK\$'000	Unrealised profit on inventories HK\$'000	Provisions for receivables and inventories HK\$'000	Total HK\$'000
At 1 January 2014	18	3,629	303	901	886	5,737
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	-	43	213	187	(3)	440
Deferred tax charged to other comprehensive income during the year	(49)	-	-	-	-	(49)
Exchange realignment	-	-	(4)	-	(36)	(40)
Gross deferred tax assets at 31 December 2014	(31)	3,672	512	1,088	847	6,088

Deferred tax liabilities

	Depreciation and amortisation allowance in excess of related depreciation and amortisation	
	2015 HK\$'000	2014 HK\$'000
At 1 January	1,054	801
Deferred tax charged to the statement of profit or loss during the year (note 10)	183	253
Gross deferred tax liabilities at 31 December	1,237	1,054



25. 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:

	2015 HK\$'000	2014 HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	6,872	5,047
Net deferred tax liabilities recognised in the consolidated statement of financial position	(173)	(13)
	6,699	5,034

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 generates in Hong Kong, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. As at 31 December 2015, the amounts of temporary difference associated with investments in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$101,527,000 (2014: HK\$96,316,000).

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



NOTES TO FINANCIAL STATEMENTS (continued)

26. SHARE CAPITAL

Shares

	2015 HK\$'000	2014 HK\$'000
Authorised: 225,000,000 (2014:10,000,000) ordinary shares of US\$0.1 (HK\$0.775) each (2014: US\$1 (HK\$7.75) each)	174,375	7,750
Issued and fully paid: 225,000,000 (2014: 3,870,968) ordinary shares of US\$0.1 (HK\$0.775) each (2014: US\$1 (HK\$7.75) each)	174,375	30,000

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

	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2014	1	–	–	–
Issue of shares	3,870,967	30,000	–	30,000
At 31 December 2014 and 1 January 2015	3,870,968	30,000	–	30,000
Subdivision of Shares (note a)	34,838,712	–	–	–
Initial public offering (note b)	56,250,000	43,594	292,781	336,375
Share issue expenses	–	–	(21,448)	(21,448)
Capitalisation Issue (note c)	130,040,320	100,781	(100,781)	–
At 31 December 2015	225,000,000	174,375	170,552	344,927

- (a) Pursuant to a written resolution of the shareholders of the Company passed on 12 June 2015, the issued shares of the Company was increased from 3,870,968 to 38,709,680 by the subdivision of the par value of each share of the Company originally US\$1.00 per share into US\$0.10 each, ranking pari passu in all respects with the existing shares of the Company.
- (b) On 8 July 2015 (the "Listing Date"), 56,250,000 new shares of US\$0.1 (HK\$0.775) each were issued at a price of HK\$5.98 per share in connection with the Company's initial public offering on the Stock Exchange. The proceeds of HK\$43,594,000 representing the par value, were credited to the Company's share capital. The remaining proceeds of HK\$292,781,000 (before deduction of share issue expenses) were credited to the share premium account.



26. SHARE CAPITAL (continued)

Shares (continued)

- (c) Pursuant to a written resolution of the shareholders of the Company passed on 12 June 2015, a total of 130,040,320 shares of US\$0.1 (HK\$0.775) each were allotted and issued at par value to the shareholders as of the date immediately before the Listing Date on a pro rata basis by way of capitalisation of US\$13,004,000 (HK\$100,781,000) from the Company's share premium account on the Listing Date.

27. SHARE OPTION SCHEME

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

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

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



NOTES TO FINANCIAL STATEMENTS (continued)

27. SHARE OPTION SCHEME (continued)

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

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

28. RESERVES

Surplus reserves

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

Capital reserve

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

Merger reserve

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



29. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its warehouse, office buildings and office equipment under operating lease arrangements. Leases for warehouse, office buildings and office equipment are negotiated for terms ranging from one to five years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	12,158	8,854
In the second to fifth years, inclusive	10,057	3,397
	22,215	12,251

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	2015 HK\$'000	2014 HK\$'000
Contracted, but not provided for:		
Land and buildings	48,582	69,608
Machinery and equipment	3,257	888
Intangible assets	709	–
	52,548	70,496



NOTES TO FINANCIAL STATEMENTS

(continued)

31. MAJOR NON-CASH TRANSACTIONS

In June 2015, the Group offsetted its amount due from a director against its relevant debts due to PuraPharm Corporation Limited ("PP BVI"), the immediate holding company, amounting to HK\$12.0 million.

32. 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
Ms. Man Yee Wai, Viola ("Ms. Viola Man")	Director of the Company
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Non-executive director of the Company
Fullgold Development Limited	Ultimate holding company
PP BVI	Immediate holding company
Joint Partners Investments Limited	Company controlled by directors
HerbMiners Holdings Limited	Company controlled by a director
HerbMiners Informatics Limited	Company controlled by a director
Golden Gain International Limited	Company wholly owned by a director
Edtoma Secretarial Services Limited	Company significantly influenced by a non-executive director
CWCC Co., Limited	Company significantly influenced by a non-executive director
Gateway (Macao Commercial Offshore) Company Limited	Company significantly influenced by a non-executive director
Gold Sparkle (Guizhou) DZ Plantation Co., Ltd	Company controlled by a director



32. RELATED PARTY TRANSACTIONS (continued)

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

		2015 HK\$'000	2014 HK\$'000
Rental expenses	(i)	720	1,440
Software license fee and IT service fee	(ii)	1,098	413
Purchase of raw materials	(iii)	3,950	–
Professional service fees	(iv)	997	615

Notes:

- (i) The rental expenses were paid to Golden Gain International Limited, a related company controlled by Mr. Abraham Chan, under a price mutually agreed by both parties. The lease arrangement was terminated on 30 June 2015.
- (ii) The software license fee and IT service fee were paid to HerbMiners Informatics Limited, a related company controlled by Mr. Abraham Chan, under prices mutually agreed by both parties. The Directors consider that the service charges were in line with those offered by the supplier to its other customers.
- (iii) The purchase of raw materials was made from Gold Sparkle (Guizhou) DZ Plantation Co., Ltd, a related company controlled by Mr. Abraham Chan, under prices mutually agreed by both parties. The Directors consider that the purchases of raw materials were made according to the prices and conditions similar to those offered to the other suppliers of the Group.
- (iv) The professional service fees were paid to the related companies, over which Mr. Eddie Chan, the non-executive director of the Company, has significant influence, under prices mutually agreed by both parties. The Directors consider that the service charges were in line with those offered by the suppliers to its other customers.

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



NOTES TO FINANCIAL STATEMENTS (continued)

32. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties:

	2015		2014	
	HK\$'000	Maximum amount outstanding HK\$'000	HK\$'000	Maximum amount outstanding HK\$'000
Amount due from a Director Mr. Abraham Chan*	–	11,822	11,822	14,671
Amount due to the immediate holding company PP BVI*	–	12,365	12,365	12,365
Amount due from a related company Golden Gain International Limited*	–	240	240	240
Trade payables Gold Sparkle (Guizhou) DZ Plantation Co., Ltd **	840	840	–	–

* The above balances were unsecured, interest-free and payable on demand.

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



32. RELATED PARTY TRANSACTIONS (continued)

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

	2015 HK\$'000	2014 HK\$'000
Salaries, allowances and benefits in kind	9,153	8,795
Pension scheme contributions	54	51
	9,207	8,846

(e) Provision of guarantees by related parties

	2014 HK\$'000
Bank loans guaranteed by:	
Mr. Abraham Chan, Ms. Viola Man, and PP BVI	79,503
Mr. Abraham Chan and PP BVI	8,260
Mr. Abraham Chan	94,894
	182,657

The above guarantees provided by the related parties were released upon the Listing on 8 July 2015.



NOTES TO FINANCIAL STATEMENTS

(continued)

33. 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:

2015

Financial assets

	Loans and receivables HK\$'000	Available-for- sale financial assets HK\$'000	Total HK\$'000
Available-for-sale investments	–	13,348	13,348
Trade and bills receivables	161,018	–	161,018
Financial assets included in prepayments, deposits and other receivables	12,171	–	12,171
Cash and cash equivalents	232,243	–	232,243
Pledged bank deposits	6,000	–	6,000
	411,432	13,348	424,780

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade payables	38,091
Financial liabilities included in other payables and accruals	29,857
Interest-bearing bank borrowings	125,431
	193,379



33. 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)

2014

Financial assets

	Loans and receivables HK\$'000	Available-for- sale financial assets HK\$'000	Total HK\$'000
Available-for-sale investments	–	10,531	10,531
Trade and bills receivables	103,098	–	103,098
Financial assets included in prepayments, deposits and other receivables	8,340	–	8,340
Due from a director	11,822	–	11,822
Due from a related company	240	–	240
Cash and cash equivalents	46,736	–	46,736
Pledged bank deposits	20,633	–	20,633
	190,869	10,531	201,400

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade payables	44,546
Financial liabilities included in other payables and accruals	23,677
Interest-bearing bank and borrowings	182,692
Due to the immediate holding company	12,365
	263,280



NOTES TO FINANCIAL STATEMENTS

(continued)

34. TRANSFERS OF FINANCIAL ASSETS

- (i) At 31 December 2015, 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\$5,224,000 (2014: HK\$2,279,000). The Derecognised Bills had a remaining maturity of approximately two months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the reporting period, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the years or cumulatively. The endorsement has been made evenly throughout the year ended 31 December 2015.

- (ii) As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Arrangement") and transferred certain trade receivables to banks. Under the Arrangement, the Group has retained the substantial risks and rewards, which include default risks relating to such trade receivables, and accordingly, it continued to recognise the full carrying amounts of the trade receivables. Subsequent to the transfer, the Group did not retain any rights on the use of trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. As at 31 December 2015, no trade receivables were transferred under the Arrangement. As at 31 December 2014, the original carrying value of the trade receivables transferred under the Arrangement that have not been settled amounted to HK\$14,243,000, of which carrying amounts that the Group continued to recognise was HK\$14,243,000, and that of the associated liabilities was HK\$11,217,000.



35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Financial assets				
Available-for-sale investments	13,348	10,531	13,348	10,531
Trade and bills receivables	161,018	103,098	161,018	103,098
Financial assets included in prepayments deposits and other receivables	12,171	8,340	12,171	8,340
Due from a director	–	11,822	–	11,822
Due from a related party	–	240	–	240
Pledged bank deposits	6,000	20,633	6,000	20,633
Cash and cash equivalents	232,243	46,736	232,243	46,736
	424,780	201,400	424,780	201,400
Financial liabilities				
Trade payables	38,091	44,546	38,091	44,546
Financial liabilities included in other payables and accruals	29,857	23,677	29,857	23,677
Interest-bearing bank borrowings	125,431	182,692	125,431	182,692
Due to the immediate holding company	–	12,365	–	12,365
	193,379	263,280	193,379	263,280



NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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



36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, available-for-sale investments, balances with related parties 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 reviews and agrees policies for managing each of these risks and they are summarised below.

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	
	2015 HK\$'000	2014 HK\$'000
If decrease by 100 basis points	644	1,242
If increase by 100 basis points	(644)	(1,242)



NOTES TO FINANCIAL STATEMENTS (continued)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity for the years ended 31 December 2015 and 2014 to a reasonably possible change by 5% in the HK\$ exchange rate against RMB, 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.

	2015 HK\$'000	2014 HK\$'000
If RMB weakens against HK\$ by 5%		
Decrease in profit before tax	(1,586)	(3,718)
If RMB strengthens against HK\$ by 5%		
Increase in profit before tax	1,586	3,718

Credit risk

There is no significant concentration of credit risk within the Group as the customer bases of the Group's trade and bills receivables are dispersed.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from the ultimate holding company and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the financial statements.



36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

	2015			Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	
Interest-bearing bank borrowings (note)	125,211	220	–	125,431
Trade payables	–	34,879	–	34,879
Other payables	–	29,857	–	29,857
	125,211	64,956	–	190,167

	2014			Total HK\$'000
	Less than On demand HK\$'000	3 to 12 3 months HK\$'000	months HK\$'000	
Interest-bearing bank borrowings (note)	178,321	3,682	723	182,726
Trade payables	–	35,884	8,662	44,546
Other payables	–	23,677	–	23,677
Due to the immediate holding company	12,365	–	–	12,365
	190,686	63,243	9,385	263,314



NOTES TO FINANCIAL STATEMENTS (continued)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Note: As at 31 December 2015, interest-bearing bank borrowings in the amount of HK\$125,211,000 (2014: Hk\$178,321,000) include a repayment on demand clause in the loan agreements giving the banks the unconditional right to call in the loans at any time and 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 2015 and 2014 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	Total HK\$'000
2015	–	37,499	89,215	2,624	129,338
2014	16,061	68,874	97,227	6,265	188,427

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 2015.



36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade payables, other payables and accruals, interest-bearing bank borrowings and an amount due to the immediate holding company less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	2015 HK\$'000	2014 HK\$'000
Interest-bearing bank borrowings	125,431	182,692
Trade and payables	38,091	44,546
Other payables and accruals (note 22)	56,468	37,688
Due to the immediate holding company	–	12,365
Less: Cash and cash equivalents	(232,243)	(46,736)
Net debt	(12,253)	230,555
Equity attribute to owners of the parent	469,710	135,689
Net debt and equity	457,457	366,244
Gearing ratio	N/A	63%



NOTES TO FINANCIAL STATEMENTS

(continued)

37. EVENTS AFTER THE REPORTING PERIOD

Adoption of 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 Board has further resolved in February 2016 that a sum of HK\$10,000,000 will be provided for the purchase of the Company's shares to be awarded to the Eligible Award Participants to be selected by the Board. Up to the reporting date, the Company has not purchased any of the Company's shares and awarded any shares to the Eligible Award Participants.

Acquisition of intellectual properties

On 23 March 2016, Nong's Company Limited, a wholly-owned subsidiary of the Group, entered into a sale and purchase agreement (the "Agreement") with Herbminers Informatics Limited ("Herbminers"). Herbminers is ultimately owned as to 80% by Mr Abraham Chan. As such, Herbminers is a connected person of the Company. Pursuant to the Agreement, Herbminers agreed to sell and assign the intellectual properties which comprise the titles, interests and rights in respect of its two Chinese medicines management software, namely the Traditional Chinese Medicine Advisor and Herbminers Dispensary Management System, to Nong's Company Limited at an aggregate consideration of HK\$8,561,000.

Except as disclosed above, there are no material subsequent events undertaken by the Company or by the Group after the reporting period.



38. COMPARATIVE AMOUNTS

As further explained in note 2.2 and note 4 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) and changes of the Group's segmentation basis during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements and reflect the changes in revenue, profit and other segment information for the Group's operating segments. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

39. 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:

	2015 HK\$'000	2014 HK\$'000
NON-CURRENT ASSETS		
Investments in subsidiaries*	–	–
Total non-current assets	–	–
CURRENT ASSETS		
Prepayments, deposits and other receivables	267,537	21,733
Cash and cash equivalents	50,159	–
Total current assets	317,696	21,733
CURRENT LIABILITIES		
Other payables and accruals	1,460	972
NET CURRENT ASSETS	316,236	20,761
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS	316,236	20,761
EQUITY		
Share capital	174,375	30,000
Reserves (Note)	141,861	(9,239)
Total equity	316,236	20,761

* As at 31 December 2015, the investments in subsidiaries of the Company is US\$1 (HK\$8) (2014: US\$1 (HK\$8)).



NOTES TO FINANCIAL STATEMENTS (continued)

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

Note:

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

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2014	–	–	(2,221)	(2,221)
Issue of shares (note 26)	30,000	–	–	30,000
Loss for the year	–	–	(7,018)	(7,018)
At 31 December 2014	30,000	–	(9,239)	20,761
Balance at 1 January 2015	30,000	–	(9,239)	20,761
Loss for the year	–	–	(19,452)	(19,452)
Issue of shares (note 26)	43,594	292,781	–	336,375
Share issue expenses (note 26)	–	(21,448)	–	(21,448)
Capitalisation Issue (note 26)	100,781	(100,781)	–	–
At 31 December 2015	174,375	170,552	(28,691)	316,236

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 23 March 2016.



FOUR YEAR FINANCIAL SUMMARY

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

	Year ended 31 December			
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
RESULTS				
REVENUE	473,900	366,352	342,303	287,811
Cost of sales	(168,168)	(134,241)	(123,086)	(103,210)
Gross profit	305,732	232,111	219,217	184,601
Other income and gains	8,212	5,794	7,956	13,996
Selling and distribution expenses	(140,214)	(99,176)	(101,940)	(78,166)
Administrative expenses	(119,376)	(81,028)	(79,711)	(54,628)
Other expenses	(3,977)	(2,307)	(2,683)	(4,791)
Finance costs	(10,243)	(13,064)	(13,149)	(10,959)
PROFIT BEFORE TAX	40,134	42,330	29,690	50,053
Tax	(11,676)	(7,823)	(3,399)	(5,911)
PROFIT FOR THE YEAR	28,458	34,507	26,291	44,142
Attributable to:				
Owners of the parent	28,458	34,463	26,264	44,094
Non-controlling interests	–	44	27	48
	28,458	34,507	26,291	44,142



FOUR YEAR FINANCIAL SUMMARY (continued)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2015 HK\$'000	As at 31 December		
		2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
TOTAL ASSETS	697,332	420,310	348,111	333,502
TOTAL LIABILITIES	(227,622)	(284,497)	(274,999)	(289,475)
NON-CONTROLLING INTERESTS	–	(124)	(80)	(53)
	469,710	135,689	73,032	43,974

Note:

- (1) The historical financial information of the Group for the years ended 31 December 2014, 2013 and 2012 was extracted from the Prospectus.
- (2) No financial information of the Group for the year ended 31 December 2011 has been published.









PuraPharm

Chinese Medicine Modernized

PuraPharm Corporation Limited
培力控股有限公司

Suite 4002, Jardine House, 1 Connaught Place, Central, Hong Kong
香港中環康樂廣場 1 號怡和大廈 4002 室

Tel 電話：(852) 2840 1840

www.purapharm.com