PuraPharm®

PuraPharm Corporation Limited 培力控股有限公司

Stock code 股票代號：1498

2016 ANNUAL REPORT 年度報告

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Executive Directors

Mr. Chan Yu Ling, Abraham *(Chairman)*
Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)*
Mr. Chan Lung Sang
(appointed on 22 August 2016)
Mr. Leung Chin Man
(resigned on 22 August 2016)
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. Piu 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. Chan Yu Ling, Abraham
(appointed on 22 August 2016)
Mr. Leung Chin Man
(resigned on 22 August 2016)

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

Headquarter and Principal Place of Business In Hong Kong

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

Hong Kong Share Registrar

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

Cayman Islands Share Registrar

Estera Trust (Cayman) Limited
(formerly known as "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

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

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

Board of Directors

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 56, 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 18 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). In 2016, he was awarded Directors of The Year Awards 2016 by The Hong Kong Institute of Directors. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's Degree in Applied Sciences. He was accredited as a Chartered Engineer in the United Kingdom and was accredited as a Professional Engineer in Ontario, Canada. He is the spouse of Ms. Man Yee Wai, Viola, an Executive Director.

Dr. Tsoi Kam Biu, Alvin (蔡鑑彪), aged 60, is an Executive Director and Vice Chairman. He is responsible for the overall strategic planning of the Group's business. Dr. Tsoi has over 22 years of experience in sales management and Chinese medicine and healthcare products. Dr. Tsoi is a consultant in The Hong Kong T. C. M. Orthopaedic and Traumatic Association Ltd. He is also an Honorary President and a consultant of The Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited. Dr. Tsoi is a listed Chinese Medicine Practitioner under the Chinese Medicine Practitioners Board of the Chinese Medicine Council of Hong Kong. Dr. Tsoi received his Doctorate Degree in Dental Medicine from De Ocampo Memorial College in the Philippines and obtained a Bachelor's Degree in Chinese Medicine from the Chinese Medical Research Institute of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited.

Mr. Chan Lung Sang (陳隆生), aged 65, is an Executive Director appointed by the Board on 22 August 2016. He is responsible for the Nong's clinic operations and development in the Hong Kong, PRC and overseas market, as well as the sales and marketing of Nong's CCMG products and Chinese medicine healthcare products of the Group. He joined the Group as a General Manager in 2003. From 1992 to 2001, Mr. Chan held various positions in A.S. Watson & Co., Ltd. and was appointed General Manager to oversee the Guangzhou business of Watson's water in 1999. In 2011, Mr. Chan was appointed as the Honorary President of The H.K.T.C.M. Orthopaedic and Traumatic Association Ltd. and in 2012, he was appointed as a consultant of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited. Mr. Chan obtained a Master's Degree in Business Administration from Janus University in the U.S. through distance learning.

Ms. Man Yee Wai, Viola (文綺慧), age 51, is an Executive Director and has been with the Group since its founding in 1998. She is responsible for corporate and brand strategies, and the overall strategic planning of the Group's business. Ms. Man was the Key Account Manager and Group Product Manager of Nestle China Limited and the Consumer Marketing Manager of Coca-Cola China Ltd. and has over 20 years of experience in strategic planning, brand management, consumer and industrial marketing, key account management and new product development. Ms. Man was the Chairman (2012/13) of Tung Wah Group of Hospitals ("TWGHs"), one of the largest charitable organisations principally engaged in the provision of medical and health services, education and community services in Hong Kong and was a member of the Advisory Board of TWGHs (2013/14). Ms. Man was the Founding Chairman of the Board of Governors and College Council of Tung Wah College, and is currently the Council Chairman of Tung Wah College. She is a member of the Council of the Education University of Hong Kong . Ms. Man sits on the Hospital Governing Committees of five hospitals under the Hong Kong Hospital Authority. She is a member of the Betting and Lotteries Commission and a fellow of Hong Kong Institute of Directors. Ms. Man was a member of the Advisory Committee of the School of Chinese Medicine of Hong Kong Baptist University (2010 to 2016), and a member of the Risk Communication Advisory Group of the Centre for Health Protection of the Health Department (2013 to 2016). Ms. Man is a member of the Chinese People's Political Consultative Conference of Sichuan Province. She was awarded the Bronze Bauhinia Star by the Chief Executive of Hong Kong SAR in 2013. Ms. Man obtained her Bachelor's Degree in Science from The University of Western Ontario, Canada and her Master's Degree in Business Administration from The University of Windor in Canada. She is the spouse of Mr. Chan Yu Ling, Abraham, the Group's Chairman, Chief Executive Officer and Executive Director.

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

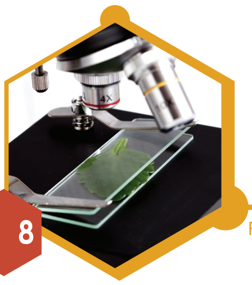
Non-executive Director

Mr. Chan Kin Man, Eddie (陳健文), aged 56, is a Non-Executive Director. Mr. Chan has over 30 years of extensive experience in professional accounting and taxation services. He is the founder and senior partner in CWCC, an accounting firm, to oversee the divisions of tax, corporate secretarial and China business advisory services. Mr. Chan was accredited as a Certified Public Accountant (practising) and a fellow member by the Hong Kong Institute of Certified Public Accountants in January 1990 and July 1993 respectively, a Chartered Certified Accountant (practising) and a fellow member of the Association of Chartered Certified Accountants in July 2004 and January 2001 respectively. 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.

Independent Non-executive Directors

Dr. Chan Kin Keung, Eugene (陳建強), aged 53, is an Independent Non-Executive Director. He is an Honorary Clinical Associate Professor of the Faculty of Medicine of The Chinese University of Hong Kong, a Visiting Professor of the Jinan University in the PRC, the President of the Association of Hong Kong Professionals. Dr. Chan has been appointed as a member of the Board of Advisors of Radio Television Hong Kong since 2010, and was appointed the Chairman of the Board in 2016; a member of the Advisory Committee of School of Chinese Medicine of Hong Kong Baptist University, a member of Citizens Advisory Committee on Community Relations of Independent Commission Against Corruption, a member of Independent Police Complaints Council and a member of the Appeal Board on Public Meetings and Procession since 2013; and a member of the Quality Education Fund Steering Committee since 2015. He was appointed as the non-official Justices of the Peace by the Chief Executive of Hong Kong SAR. In 2016, he was awarded the Bronze Bauhinia Star by the Government of Hong Kong. He obtained a Bachelor's Degree in Dental Surgery from the University of Adelaide in Australia and received a Fellowship Ad Eundem from the Royal College of Surgeons of England.

Mr. Ho Kwok Wah, George (何國華), aged 58, 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.



Dr. Leung Lim Kin, Simon (梁念堅), aged 62, 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, an honorary doctorate in laws from the University of Western Ontario in Canada and a doctorate degree of business administration from the Hong Kong Polytechnic University.

Prof. Tsui Lap Chee (徐立之), aged 66, is an Independent Non-Executive Director. Prof. Tsui is currently the President of the Academy of Sciences of Hong Kong and the President of Victor and William Fung Foundation. He is also an Independent Non-Executive Director of China NT Pharma Group Company Limited (stock code: 1011), and Hang Lung Group Limited (stock code: 0010), respectively. Prior to joining the Group, he was the Vice Chancellor of the University of Hong Kong. Prof. Tsui has over 40 years of research work experience, particularly in human genetics and genomics. Besides, he has over 300 peer-reviewed scientific publications and 65 invited book chapters. He was the recipient of many national and international prizes and was awarded 15 honorary doctoral degrees from universities around the world. He was appointed as the Justice of the Peace in 2006 and was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the Chief Executive of Hong Kong SAR in 2011 and 2016 respectively. He received a Doctor of Philosophy Degree from the University of Pittsburgh in the U.S..

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

Scientific Advisory

Prof. Paul Vanhoutte, is Chairman of the Scientific Advisory Committee. Prof. Vanhoutte is Professor in the Department of Pharmacology & Pharmacy and Honorary Professor of the Department of Anaesthesiology, the University of Hong Kong. Prof. Vanhoutte has written three theses. He has co-authored or edited 36 books. He has published 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. His current h-index is 131.

Prof. Rudolf Bauer, is Full Professor at the Department of Pharmacognosy and the Head of the Institute of Pharmaceutical Sciences, University of Graz, Austria. Prof. Bauer is a member of two expert groups on herbal drugs of the European Pharmacopoeia Commission. He has been active in the development methods for quality control of Chinese herbs for 25 years. He has published 350 original publications, reviews and book chapters.

Mr. Chan Yu Ling, Abraham is the founder, Chairman, Chief Executive Officer and Executive Director of the Group. Please refer to page 6 of this annual report for further details on the biography of Mr. Chan.

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

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

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

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

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

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

Senior Management

Mr. Cheng Hok Kai, Frederick (鄭學啟), aged 53, 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.

Mr. He Ding Xiang (賀定翔), aged 52, is the General manager, Guizhou Operations and Herbs Planting, Herbal Seeds and Seedlings. He is responsible for the herbs planting of Chinese medicine and projects of herbal seed and seedling plantation. Mr. He joined the Group in March 2017. Mr. He has over 18 years of experience in the plantation of raw Chinese herbs industry. Prior to joining the Group, in July 2002, Mr. He founded Guizhou Changhao Chinese Medicine Development Co., Ltd. (貴州昌昊中藥發展有限公司), a company principally engaged in plantation and trading of raw Chinese herbs, and manufacturing and sale of TCM decoction pieces, and has been its general manager since then. Mr. He has obtained several provincial and national research awards. Mr. He is the vice president of the China Natural Resources Institute of Natural Medicines Resources Committee (中國自然資源學會天然藥物資源專業委員會), the vice president of the China Association of Traditional Chinese Medicine Seeds and Seedlings Professional Committee (中國中藥協會中藥材種子種苗專業委員會), the vice president of the China Association of Traditional Chinese Medicine Plantation and Breeding Professional Committee (中國中藥協會中藥材種植養殖專業委員會), the executive director of the Chinese Society of Traditional Chinese Medicine (中華中醫藥學會中藥資源學會) and the executive director of the Forest Management Committee of China Forestry Management Association (中國林業經理協會森林藥材專業委員會). Mr. He obtained his bachelor's degree in Chinese medicine from the Guiyang Traditional Chinese Medicine College (貴陽中醫學院) in 1987.

Mr. Lam Kin Man Patrick (林健文), aged 56, is the Chief Production and Information Officer. He is responsible for managing the production department and the information technology department as well as providing technical and strategic advice to the Group's management on information technology aspects. Mr. Lam joined the Group in October 2015. Prior to joining the Group, from 1998 to 2015, Mr. Lam was the Director and later as the Vice President at SAE Magnetics (HK) Ltd., a manufacturer of magnetic recording heads for hard disk drives being used in computers and in consumer electronics, where he was primarily responsible for establishing information technology strategy for the company and leading system implementation. He received a Bachelor's Degree in Applied Science in 1981 and a Master Degree in Engineering in 1984 from the University of Toronto in Canada, respectively.

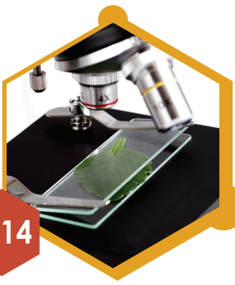
DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

Ms. Lee Hoi Ying (李凱盈), aged 37, is the General Manager of Human Resources, Training and Legal. She is primarily responsible for the management of the administration, human resources, training and legal. 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 Wai Shan (李慧珊), aged 37, is the Chief Financial Officer. She is responsible for the Group's financial reporting and financial management, procurement and supply chain 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.

Dr. Norimoto Hisayoshi (範本文哲), aged 47, is the Chief R&D Officer cum General Manager, PuraPharm Japan Corporation. He is primarily responsible for the management of group R&D and operation of PuraPharm Japan Corporation. Dr. Norimoto joined the Group in March 2016 as General Manager of PuraPharm Japan Corporation. Prior to joining the Group, from 2001 to 2016, Dr. Norimoto was head of R&D at Kampo Research Labs of Kracie Pharma, Ltd, one of biggest Kampo pharmaceutical manufacturer in Japan, where he was primarily responsible for overseeing its pharmacological study, drug discovery and new products development. Dr. Norimoto received a Master's Degree and Ph.D. in pharmaceutical science from the National Toyama Medical and Pharmaceutical University, Japan in 1998 and 2001, respectively.

Mr. Yau Fook Wing, Edward (邱福榮), aged 34, is the Production Compliance and Regulatory Affairs Director. He is responsible for the Quality Assurance and Quality Control functions of the manufacturing facility as well as the Regulatory Affairs function which covers Hong Kong, China and Overseas. Mr. Yau joined the company since August 2016 from Bayer Healthcare. He graduated from The University of Auckland with a degree in Pharmacy in 2006 and further received a Postgraduate Certificate in Health Sciences in 2015. He has also received a Postgraduate Certificate in Chinese Medicine from The University of Hong Kong School of Professional and Continuing Education in 2011. In his career, he had assumed various positions in quality, production, regulatory affairs and medical affairs in various pharmaceutical companies, and had experience working as the Authorized Person of GMP manufacturing facilities. Mr. Yau is a Registered Pharmacist and a Registered Authorized Person in Hong Kong. He takes an active role in the pharmaceutical and Chinese Medicines industries, being the current Vice President of The Pharmaceutical Society of Hong Kong and the Vice President of The Hong Kong Society of Chinese Medicines. He was appointed by the Pharmacy and Poisons Board to be a Member of the Working Group on Drafting the Code of Practice for Registered Pharmacists in 2013.



CORPORATE MILESTONES

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" or "PuraPharm"):

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

2002 • In recognition of the Groupˇs 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 Groupˇs 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 Groupˇs ONCO-Z coriolus versicolor extract, the sole ingredient of one of the Group's Chinese healthcare products, Oncozac® (安固生®), was verified by United States Pharmacopoeia ("USP") as dietary ingredient and became the world's first TCM ingredient verified by the USP. The USP medicine standards are widely recognised as one of the most strict quality control standards for assessment of the identity, strength, quality, and purity of medicines.

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

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

2014 • The Group˜s Radix Astragali Formula Granules was verified by the USP Dietary Ingredient Verification Program

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

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

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

2016 • The Group operates the first Nong's® (農本方®) clinic at Canada.

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

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

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

Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

Purapharm's vision has always been to modernize and to internationalize Chinese Medicine so that more people can benefit from this old Chinese wisdom. After 18 years of hard work, the Group became the largest supplier of Concentrated Chinese Medicine Granules ("CCMG") in Hong Kong with a market share of over 70% and also operated the largest Chinese medicine clinic chain in Hong Kong. The Group strives to continue to develop good Chinese medicinal products so that millions of people around the world can have better health. To achieve this goal, the Group believes it is important to ensure PuraPharm is underpinned by good corporate governance. Therefore, I am very honoured to have received Directors of the Year Award, and I view it as a recognition of PuraPharm's efforts in pursuing good corporate governance.

The Group continues to expand the business segment of Chinese medicine clinics under the Nong's® (農本方®) brand. As at 31 December 2016, the Group operates 50 Nong's clinics in Hong Kong. The number of clinics operated by the Group has been substantially increased which is a testament to the Group's extreme confidence in this business. In order to modernize and internationalize Chinese Medicine, the first Nong's clinic at Canada starts operation in forth quarter of 2016. In addition, the Group commenced the operation of the first private integrated Chinese and western medical center for mammary gland diseases in Hong Kong, located in Precious Blood Hospital (Caritas), in November 2016.

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 clinic business model in Hong Kong, the Group is in the process of establishing its Nong's clinics model in Mainland China and overseas market in selected regions. The Group obtained the Approval for the Establishment of Medical Institutions from Health and Family Planning Commission (衛生和計劃生育委員會), to set up its Nong's clinic in Shanghai and Guangxi. The first Nong's clinic in China is expected to commence operation in second quarter of 2017.

Furthermore, the Group plans to vertically integrate the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of ensuring a stable supply of high-quality raw Chinese herbs at a lower cost. One of the current expansion plans and business strategies of the Group is to expand into the Traditional Chinese Medicine ("TCM") decoction pieces business which is highly complementary to its existing CCMG business. The TCM decoction pieces market in China was RMB196.8 billion in 2014 and is estimated to grow to RMB488.9 billion by 2019. The recent acquisition of plantation business at Guizhou will allow the Group to immediately enter into the TCM decoction pieces industry.

Consistent with its core value to internationalize TCM and to bring good health to the public, the Group recently acquired a company in the U.S. which engaged in manufacturing of Chinese herbal formulas in U.S. and sales to distributors and healthcare practitioners in U.S. and Europe. The acquisition presents an excellent opportunity for the Group to leverage on the expertise, resources, and sale network of the target company to develop its business in the U.S. market immediately. The Group also believes the acquisition can create synergies with its existing products and expand the products portfolio of the Group's Chinese medicine products to increase the competitiveness of the Group in the market.

Appreciation

Last but not least, I would like to thank the shareholders, customers and business partners for their unwavering support and trust over the years. My deep gratitude also goes to all our board members for their guidance, as well as our staffs for their contributions that have made Purapharm successful.

By Order of the Board

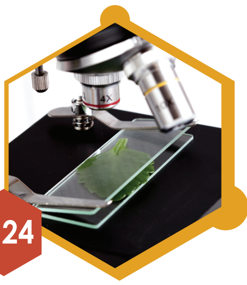
Chan Yu Ling, Abraham
Chairman
Hong Kong, 27 March 2017

CORPORATE PROFILE

CORPORATE PROFILE

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

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



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

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

CORPORATE PROFILE

Corporate Strengths

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

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

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

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

State-of-the Art Production Facility

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

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

Products and services overview

PRODUCTS AND SERVICES OVERVIEW

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

Our mission is simple:

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

Nong's CCMG products

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

OTC products

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

NONG'S
農本方
Oncozac

NONG'S Clinics

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

Through a combination of Chinese medical skills, innovative technology, contemporary medicine and modernized management, **Nong's®** Chinese Medicine Clinics provide patients with high-quality Chinese medical service as well as reliable, convenient and instant Concentrated Chinese medicine granules.

The Group's characteristics:

1. High-quality Chinese Medical Service

- All practitioners in the Group's Nong's Clinics are qualified University graduates and are registered CMPs, with profound knowledge in Chinese Medicine and years of clinical experience.
- Acupuncture and cupping services are also offered so as to provide the most suitable treatment for patients.

2. Tailor-made Health-keeping Service

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

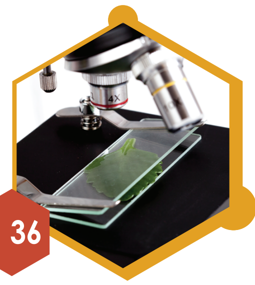
3. Scientific management, human-based service

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

Management
Discussion and Analysis

Financial Highlights

	Year ended 31 December			
	2016	2015	Change	
	HK$'000	HK$'000	HK$'000	%
Revenue				
— China CCMG	269,283	251,580	17,703	7.0
— Hong Kong CCMG	166,622	156,066	10,556	6.8
— Chinese healthcare products	47,093	47,664	(571)	(1.2)
— Nong's® (農本方) Chinese medicine clinics	52,988	18,590	34,398	185.0
	535,986	473,900	62,086	13.1
Gross profit	348,804	305,732	43,072	14.1
Profit for the year	32,162	28,458	3,704	13.0
Key profitability ratio				
Gross profit ratio	65.1%	64.5%		
Profit margin ratio	6.0%	6.0%		



Financial Review

Sales Performance

	Year ended 31 December 2016 Revenue HK$000	2016 % of total	2015 Revenue HK$'000	2015 % of total	Growth rate
China CCMG	269,283	50.2%	251,580	53.1%	7.0%
Hong Kong CCMG	166,622	31.1%	156,066	32.9%	6.8%
Chinese Healthcare products	47,093	8.8%	47,664	10.1%	–1.2%
Nong's® (農本方)® Chinese medicine clinics	52,988	9.9%	18,590	3.9%	185.0%
Total	535,986	100.0%	473,900	100.0%	13.1%

For the year ended 31 December 2016, the Group's revenue was HK$536.0 million, representing an increase of HK$62.1 million or 13.1% compared to HK$473.9 million in last year. The revenue growth was mainly attributable to the moderate growth of the Group's CCMG products in both Mainland China and Hong Kong market, and fast expansion of the Group's Nong's® (農本方)® Chinese medicine clinics in Hong Kong.

China CCMG

For the year ended 31 December 2016, the sales of CCMG in China was HK$269.3 million, representing an increase of HK$17.7 million or 7.0% compared to HK$251.6 million in last year. The depreciation of Renminbi ("RMB") against Hong Kong dollar during the year ended 31 December 2016 has impeded the revenue growth of China CCMG reporting in Hong Kong dollar, the revenue growth of China CCMG sales denominated in RMB increased by 13.1% as compared to the last year. The increase was mainly attributed to an increase in sales volume to the Group's direct sales customers and the exclusive distributors.

For the year ended 31 December 2016, the Group appointed a subsidiary of Yunnan Baiyao Group Co., Ltd as its exclusive distributors for CCMG products in Yunnan province in China. The Group believes that by leveraging on the collaboration with the distributors with strong customer base and relationship with hospitals and medical institutions in the selected regions, the Group can increase the effectiveness of launching and selling its products in such regions within a short period of time, and the Group will continue to identify appropriate distributors for such strategy.

For the year ended 31 December 2016, due to the impact of "Two-Invoice System" policy implemented in the PRC pharmaceutical industry, which aims to reduce the number of layer of distributors between pharmaceutical manufacturers and medical institutions, the Group's small and medium-size distributors reduced their inventory level, and lower the Group's sales growth. In order to mitigate the impact of the "Two-Invoice System" policy, the Group had restructured its sales force and resources to be more focus on the direct sales customers in the target regions of Mainland China. Due to the restructuring of the China sales team and fine-turning of the sales strategies in the first half of the year to substantiate the long term growth, the sales growth in first half of the year was slightly impeded, and the sales growth has improved progressively in second half of the year.


NONG
農本方®

HK CCMG

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 to its customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. For the year ended 31 December 2016, the direct sales of CCMG products in Hong Kong was HK$166.6 million, representing an increase of HK$10.6 million or 6.8% compared to HK$156.1 million in the corresponding period of last year. The growth was mainly attributable by the increase demand from the hospitals and increase in number of private Chinese medicine practitioners in our customer base.

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

For the year ended 31 December 2016, 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$53.0 million in aggregate, representing an increase of HK$34.4 million or 185% compared to HK$18.6 million in last year, which was mainly attributable to the fast expansion of the Nong's® (農本方)® Chinese medicine clinics network, from 30 clinics as at 31 December 2015 to 50 clinics in 2016.

For the year ended 31 December 2016, the Group has setup 21 new Nong's® (農本方)® Chinese medicine clinics in Hong Kong, including the first private Chinese and western medical integrative breast center for mammary gland diseases in Hong Kong. The Group's first Nong's® (農本方)® Chinese medicine clinic in Canada also commenced to operate in November 2016. The Group continues to be the largest TCM clinic chain in Hong Kong.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Chinese healthcare products

For the year ended 31 December 2016, revenue from sales of Chinese healthcare products was HK$47.1 million, representing a decrease of HK$0.6 million or 1.2% compared to HK$47.7 million in last year. The decrease was due to the impact to retail market result from the unfavorable economic environments. Despite the drop in the revenue of Chinese healthcare products, the sales of Nong's® Flu Formula and Nong's® Cough Formula products still experienced an outperform growth for the year ended 31 December 2016. The Group's Chinese healthcare products portfolio will become more comprehensive upon the acquisition of K'an Herbs Inc., a U.S. based Chinese herbal products company, in March 2017. The Group will continue to devote more marketing resource to improve the sales of the Chinese healthcare products, and develop new products and sales network to increase its competitiveness.

Profitability

	Year ended 31 December		
	2016 HK$000	2015 HK$000	Growth Rate
Revenue	535,986	473,900	13.1%
Cost of sales	(187,182)	(168,168)	11.3%
Gross Profit	348,804	305,732	14.1%
Gross profit margin	65.1%	64.5%	

The Group's gross profit margin for the year ended 31 December 2016 was approximately 65.1%, representing an increase of 0.6% compared to 64.5% in last year. The average selling price and unit cost remained stable during the year. The increase in the gross profit margin was mainly attributable to the increase in portion of revenue generated from Nong's® (農本方)® Chinese medicine clinics 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 2016, the Group's other income and gain was HK$10.8 million, representing an increase of HK$2.6 million or 31.5% compared to HK$8.2 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, travel and business development expenses, and sales and marketing departmental expenses. For the year ended 31 December 2016, the Group's selling and distribution expenses was HK$154.4 million, representing an increase of HK$14.2 million or 10.1% compared to HK$140.2 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) increase in our in-house sales and marketing personnel head count to strengthen our sales team for business development and enhancing services to customers. For the year ended 31 December 2016, selling and distribution expenses as a percentage to revenue improved to 28.8%, as compared to 29.6% in last year.

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 2016, the Group's administrative expenses was HK$154.0 million, representing an increase of HK$34.6 million or 29.0% compared to HK$119.4 million in last year. The increase was mainly attributable to (i) increase in clinic management fee, rental expenses and relevant clinic operating expenses in relation to the Group's Nong's® (農本方)® Chinese medicine clinics as the Group operated 50 clinics as at 31 December 2016, as compared to 30 as at 31 December 2015, (ii) an increase in staff costs due to increase senior management and staffs to strength the supply chain management and information technology infrastructure to enhance the efficiency of the Group's operation as the Group recognises the importance of building the strong foundation to substantiate the long term growth, and (iii) increase in administrative expenses for setting up new offices and operations in Shanghai, Canada, Australia and Japan.

Other expenses

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

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

For the year ended 31 December 2016, the Group's finance costs amounted to HK$9.3 million, representing a decrease of HK$0.9 million or 8.9% as compared to HK$10.2 million in last year. The decrease was mainly due to the decrease in effective interest rate on bank borrowings for the year ended 31 December 2016 as compared to last year.

Income tax expense

For the year ended 31 December 2016, the Group's income tax expenses amounted to HK$6.5 million, representing a decrease of HK$5.2 million or 44.3% as compared to HK$11.7 million in last year. The decrease was mainly due to the decrease in taxable profit as a result of increased operating costs for new business segments development, and the effect of non-deductible listing expense in last year, no such expense for the year ended 31 December 2016.

Human resources

As at 31 December 2016, the Group had a total of 544 employees (31 December 2015: 469 employees). For the year ended December 2016, total staff costs excluding Directors' remuneration was HK$113.8 million (31 December 2015: HK$91.6 million). The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and 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.

Liquidity and financial resources

Cash position and interest-bearing bank borrowings

As at 31 December 2016, the Group had net current assets of HK$255.8 million (31 December 2015: HK$315.2 million), which included cash and cash equivalent of HK$209.1 million (31 December 2015: 232.2 million) and interest-bearing bank borrowings amounting to HK$261.0 million (31 December 2015: HK$125.4 million). As at 31 December 2016, the Group's unused bank facilities including overdraft amounted to HK$197.5 million (31 December 2015: HK$114.1 million).

Cash flow and liquidity ratio analysis

	Year ended 31 December	
	2016 HK$'000	2015 HK$'000
Net cash used in operating activities	(55,828)	(12,570)
Net cash used in investing activities	(65,208)	(44,760)
Net cash from financing activities	102,701	267,797
Current ratio	1.6	2.4
Gearing ratio	0.6	0.3

For the year ended 31 December 2016, the Group's net cash used in operating activities was HK$55.8 million, which was primarily attributable to (i) the increase in trade and bills receivables of HK$85.8 million mainly resulted from the increased sales in the last quarter, and (ii) increase in inventories of HK$69.8 million which is the Group's inventory management strategy to increase the inventory level to secure the supply and minimise the exposure of the price fluctuation of the raw Chinese herbs.

For the year ended 31 December 2016, the Group's net cash used in investing activities was HK$65.2 million, which was primarily attributable to (i) the capital expenditures incurred for acquisition of production equipment and enhancement of existing production line, (ii) establishment of new Nong's® (農本方)® Chinese medicine clinics and (iii) acquisition of intellectual properties in respect of the two Chinese medicines management software for clinic operation.

For the year ended 31 December 2016, the Group's net cash from financing activities was HK$102.7 million, which was mainly resulted from the net increase in bank borrowings of HK$142.0 million.

The Group's net current ratio decreased from 2.4 as at 31 December 2015 to 1.6 as at 31 December 2016, and gearing ratio (calculated by dividing total interest-bearing bank borrowings by total equity) increased from 0.3 as at 31 December 2015 to 0.6 as at 31 December 2016. The decrease in net current ratio and increase in gearing ratio was mainly due to additional bank loans taken up by the Group as working capital for business development and capital expenditures.

Exchange risk

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

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2016.

Pledge of assets

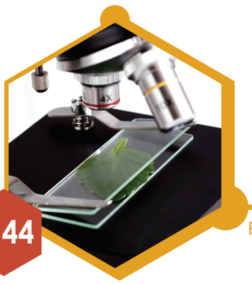
The following assets were pledged as securities for interest-bearing bank borrowings:

	Year ended 31 December	
	2016 HK$'000	2015 HK$'000
Property, plant and equipment	54,124	56,161
Prepaid land lease payments	2,779	2,704
Available-for-sale investments	2,570	10,849
Inventories	39,022	35,819
Trade and bills receivables	–	17,037
Prepayments, deposits and other receivables	–	689
Pledged bank deposits	11,000	6,000
	109,495	129,259

Capital commitments

	Year ended 31 December	
	2016 HK$'000	2015 HK$'000
Contracted, but not provided for:		
Acquisition of subsidiaries*	217,512	–
Land and buildings	48,582	48,582
Plant and machinery	8,866	3,257
Intangible assets	–	709
	274,960	52,548

* As at 31 December 2016, the Group had contracted for capital commitments in respect of the acquisition of the Target PRC Companies amounting to RMB190,000,000 (equivalent to approximately HK$217,512,000). Further details are set out in note 36 to the financial statements.



Prospects

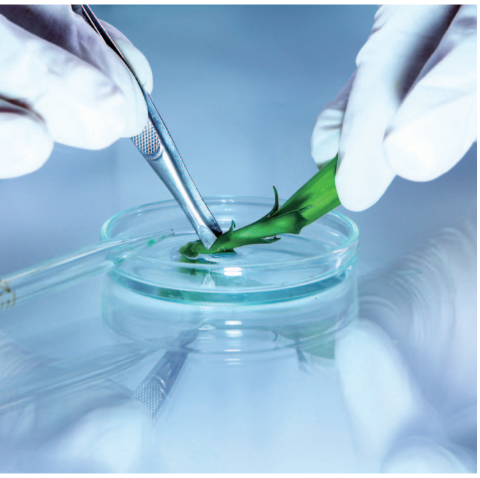
New Drug Development

In November 2016, Purapharm signed a cooperation agreement with CUHK and HKBU to develop a new Chinese drug — Ren Shu Chang Le Granules （仁朮腸樂顆粒）, which is the first Hong Kong research project being granted approval for clinical trial by the CFDA on treatment of Functional Gastrointestinal Disorders. Ren Shu Chang Le Granules is the first new drug in Hong Kong with integrative research from Western and Chinese medicine for treating Irritable Bowel Syndrome ("IBS"). It is scheduled to complete the final phase of clinical trials and ready to be launched in the market in three years' time. This will provide a new treatment for IBS patients suffering from physical discomfort and emotional disturbance. The first clinical trial for Ren Shu Chang Le Granules will commence in 2017, and is scheduled to be registered as a new drug in 2020–2021, for launch in China.

As IBS is one of the most common disorders of the digestive system around the world with an unknown cause, there is huge market potential in this area. Patients who are diagnosed with IBS suffer from bowel dysfunction, gastric disorder or intestinal hypersensitivity. Patients' endoscopy may appear normal, but they often come with abdominal pain, bloating, constipation or diarrhea, which affect their daily life. It is estimated that 10–20% of adults around the world suffer from IBS, among whom 3–6% exhibit severe symptoms. IBS is also one of the most common digestive diseases in Hong Kong, with approximately 310,000 patients suffering from it.

PuraPharm has agreed to complete the clinical trials in China for registering as a new drug in Hong Kong and mainland China and cooperate with the two universities as a commercial partner. This partnership illustrates the first successful collaboration amongst the Government, industry, academia and research sectors, and have also raised the standard of Chinese medicine research and boost innovation and technology for new drug development in Hong Kong. This cooperation enables us to maintain the leading market position with our proven research and development capabilities. As PuraPharm is committed and dedicated to the modernization and internationalization of Chinese medicine, we will continue to research and develop safe and effective Chinese medicinal products and provide convenient and quality Chinese medicine services, thereby capturing the enormous business opportunities in the market.

MANAGEMENT DISCUSSION AND ANALYSIS



Plantation Business

In November 2016, the Group entered into an acquisition agreement for the acquisition of the Target PRC Companies which are engaged in plantation and trading of raw Chinese herbs and manufacturing and sale of TCM decoction pieces (the "Acquisition"). The Acquisition will allow the Group to vertically integrate the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of ensuring a stable supply of high-quality raw Chinese herbs at a lower cost. One of the current expansion plans and business strategies of the Group is to expand into the TCM decoction pieces business which is highly complementary to its existing CCMG business. The TCM decoction pieces market in the PRC was RMB196.8 billion in 2014 and is estimated to grow to RMB488.9 billion by 2019. The Acquisition will allow the Group to immediately enter into the TCM decoction pieces industry and the expanded comprehensive product mix of the Group's CCMG, over-the-counter Chinese healthcare products and TCM decoction pieces will highly improve the competitiveness of the Group in the market.

The Group believes it is more cost and time efficient to develop this new business segment through the Acquisition, as compared to a new start up from scratch. The Acquisition presents an excellent opportunity for the Group to leverage on the expertise and resources of the Target Companies to develop its business of TCM decoction pieces.

As at the date of this report, the Target Companies owned land use rights for four parcels of land with a total site area of approximately 40,147.38 sq.m., held building ownership certificates for buildings with an aggregate gross floor area of 3,232.28 sq.m. and leased certain level as its TCM plantation base with an aggregate site area of approximately 464,202.32 sq.m. for their operations, such as plantation greenhouses and TCM processing facilities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This is the Group's first Environmental, Social and Governance report ("the report"). It discloses the Group's sustainability performance over the period from 1 January 2016 to 31 December 2016 as well as the Group's accomplishments in four essential elements of wellbeing, namely Customer Wellbeing, Employee Wellbeing, Social Wellbeing and Environmental Wellbeing.

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

Reporting Framework

The report follows the framework of the Stock Exchange of Hong Kong Limited's ESG Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Main Board Listing Rules. Corporate Governance is addressed separately in the Corporate Governance Report of the Group's 2016 Annual Report in accordance with Appendix 14 of the Main Board Listing Rules.

ESG Performance Highlight

The Group's mission is to "dedicate ourselves to humanity's quest for longer, healthier, happier lives through the innovation and modernization of Chinese Medicine." Consistent with the Group's mission, the theme of "well-being" is adopted in the Group's first sustainability report, signifying the Group's commitment to safeguard the well-being in all aspects of life. "Customer Wellbeing", "Employee Wellbeing", "Social Wellbeing" and "Environmental Wellbeing" are the four key topics that the Group has constantly adhered to in its sustainable development.

The following are ESG highlights of the reporting period:

PuraPharm's Vision on Sustainability

The Group is keenly aware of environmental and social considerations along the process to modernize and internationalize Chinese Medicine. Whether in promoting a diverse and invigorating working culture, creating a safe and healthy workplace, managing the use of resources, protecting the environment or making contributions to society, the Group endeavours to be an environmentally and socially responsible business entity.

The Group aims to communicate the efforts toward sustainable growth through the publication of ESG reports. Through these reports, readers may get a more detailed glimpse on how the Group is managing its supply chain sustainably, ensuring product quality, mitigating measures undertaken to optimize resource consumption, and highlighting a list of social activities to demonstrate care for the society.

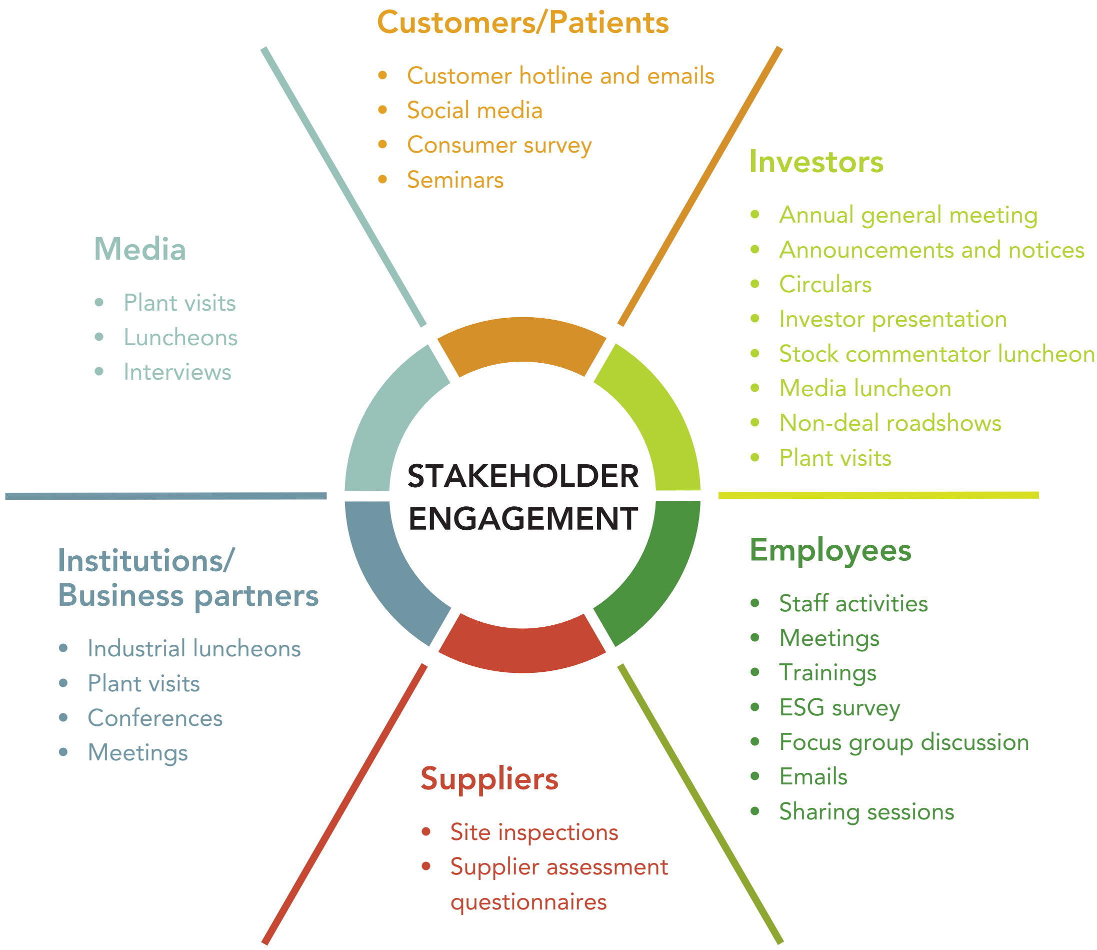
All in all, it is a story-in-progress telling how the promotion and application of Chinese medicine in the modern world could be done in a sustainable way.

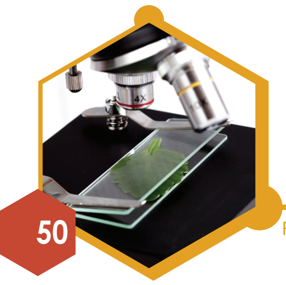
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholder Engagement

The Group understands that stakeholder engagement is crucial to continuous improvement of the business operations and sustainability performance. In this regard, the Group intensively consulted a broad group of internal and external stakeholders through a variety of channels. This led to a better understanding of stakeholders' views, needs and concerns.

Overview of stakeholder engagement efforts:





Major Certificates and Patents in 2016

Certificate	Certification Body
Certificate of Good Manufacturing Practices Compliance of a Manufacturer	Department of Health, Therapeutic Goods Administration — Australia
Certificate of Good Manufacturing Practices for Pharmaceutical Products TCM decoction pieces (cleaning and cutting)	China Food and Drug Administration — PRC
Certificate of Good Manufacturing Practices for Pharmaceutical Products Tablet, Granule (including Concentrated Chinese Medicines formula granule), Pill (honey based and water based) (including Pre-treatment and extraction of the herb)	China Food and Drug Administration — PRC
Dietary Ingredient Verified Certificate (Fructus Grataegi Formula Granules)	United States Pharmacopeia — United States (US)
Dietary Ingredient Verified Certificate (ONCO-Z Coriolus Versicolor Extract)	United States Pharmacopeia — US
Dietary Ingredient Verified Certificate (Radix Astragali Formula Granules)	United States Pharmacopeia — US
Laboratory Accreditation Certificate (ISO/IEC 17025: 2005)	China National Accreditation Service for Conformity Assessment (CNAS) — PRC
Pharmaceutical Manufacturing License	China Food and Drug Administration — PRC

Patent	Patent Office
Apparatus for determining the amount of dust happened in preparation of drug granules	State Intellectual Property Office — PRC
Preparation method of Rhizoma Dioscoreae formula granules	State Intellectual Property Office — PRC
Dispensing system for traditional Chinese medicine	IP Australia

Customer Wellbeing

In line with the vision of being the most admired Chinese medicine company, the Group places high emphasis on customer wellbeing, and the wellbeing of the customers relies on a strict adherence to quality control of the products. Therefore, beginning at sourcing from a sustainable supply chain to upkeeping a quality control checking mechanism through the entire production and packaging process, the Group endeavours to deliver safe and high quality products that meet customer's needs. The engagement with customers culminates in the Nong's clinics, where patients are provided with Chinese medical services and tailor-made solutions of PuraPharm CCMG products.

Creating a Sustainable Supply Chain

The Group has a number of suppliers across different cities in China, Hong Kong, Japan and Taiwan to maintain its business operations.

The procurement process began with the Group's experienced procurement team who would carefully assess raw material suppliers' suitability based on experience, scale of operation and the plantation site. The raw Chinese herbs used to manufacture CCMG products must meet corresponding requirements of the Pharmacopoeia of the PRC. Additionally, PuraPharm's Quality Control Laboratory would carry out tests on the raw materials to verify the ingredients' quality in accordance with the Group's stringent standards. The Group has initiatives to purchase raw Chinese herbs directly from the respective places of origin in order to better control the quality and safety of raw material. The plantation sites of raw material are recorded and documented on material labels to safeguard its traceability. Moreover, in order to manage social and environmental risks of the supply chain, the Group also assessed a broad range of issues for consideration on social and environmental management. Suitable suppliers are then recommended to the Quality Assurance team for supplier qualification assessment.

The Quality Assurance Department would then evaluate the quality standard by using a Quality Assessment Questionnaire. The Group also has a dedicated team of quality assurance staff to visit the suppliers from time to time and check if their committed quality standard is maintained.

Quality Assurance

The Group is highly committed to offering effective, safe and reliable products to its customers. As part of this commitment, its quality control system and systematic standard operating procedures are strictly compliant with the Good Manufacturing Practise (GMP) standards of the China Food and Drug Administration (FDA), Australia's Therapeutic Goods Administration (TGA), and the United States Pharmacopeia Convention (USP).

The Group is a CCMG product manufacturer whose products are verified and recognised by the USP. The USP standards are adopted in more than 140 countries worldwide and widely recognised as one of the most stringent set of quality control standards for the assessment of the identity, strength, quality and purity of medicines.

The Group's Nanning testing laboratory is certified by the China National Accreditation Service for Conformity Assessment (CNAS) in accordance with the ISO/IEC 17025:2005 general requirements. ISO/IEC 17025:2005 specifies the requirements for the competence to carry out tests and calibrations, including sampling.

The Group is the first CFDA-licensed CCMG product manufacturer that is qualified to issue these safety reports which are recognised by over 70 countries through its certified Nanning testing laboratory.

The Group has a wide range of stringent quality control measures in place, including:

- Subjecting the quality control system to regular monitoring, internal audits and self-inspections
- Conducting safety tests on its products to detect heavy metals, pesticide residues and microbial counts before they can be released to the market
- Carrying out quality checks of raw materials, intermediates and finished products
- Establishing and implementing policies and measures regarding the hygiene control of its premises and equipment
- Appointing an independent third-party laboratory to perform safety testing on Concentrated Chinese Medicines Granule products
- Utilizing the latest testing technologies and equipment to enhance quality control, such as Thin-Layer Chromatography (TLC), DNA fingerprinting in plants, Fourier Transform Infrared Spectroscopy (FTIR), Inductively Coupled Plasma Mass Spectrometry (ICP-MS), High Performance Liquid Chromatography (HPLC) and Ultra-High Performance Liquid Chromatography (UPLC)
- Establishing an effective system for handling materials and products to ensure that they are properly received, stored, distributed and delivered in order to prevent any cross-contamination or contamination

Advertising and Labelling

The Group generally provides warranties that the products transported to its distributors and direct sales customers are manufactured, packaged and labelled in compliance with the relevant requirements of the laws and regulations applicable to the PRC, Hong Kong and overseas.

Privacy and Consumer Data Protection

The Group strives to build a long-term relationship with our customers. They can apply for membership upon any health supplement product purchase from the Group. In order to become a member and enjoy membership discounts and benefits, the customer would provide relevant personal information.

The Group is committed to protecting the privacy and personal data of its members by ensuring the information received is only used for its intended purpose. As a consequence, the information collected, used, retained, transferred and processed is in line with all applicable laws and regulations in the PRC, Hong Kong and overseas.

Nong's Clinics

Nong's clinics are one of the more prevalent channels where customers engage with PuraPharm products and services.

As of the reporting period, the Group operates 50 Nong's clinics in Hong Kong and 1 clinic overseas. The Group would partner with Chinese medicine practitioners who would provide the medical consultation, followed by prescription of medicine provided by PuraPharm's CCMG products.

In particular, the Group targets to partner with young and aspiring Chinese medicine practitioners at the Nong's clinics. Most of the young Chinese madicine practitioners would want to start up his/her own clinics but would be faced with difficulties such as high rents, insufficient customer base, inexperience in the market and the operational details of a clinic. Through partnering with PuraPharm, the Group would provide the clinic space, operations, administration, promoting material, staffing of clinic assistants and other professional advices for the young practitioners, thus allowing them to devote all energy and attention to their expertise and lessening their burden on administrative matters. It is the Group's vision to modernize Chinese medicine and help young practitioners to get a jump start in their careers.

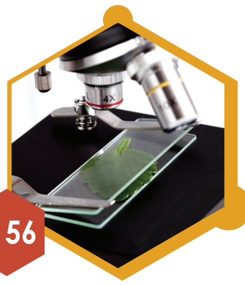
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PuraPharm's quality management system extends to Nong's clinics through the application of automated clinic management system, aimed at stringent quality control at the medicine dispensation stage. After consultation, the prescription details would be entered into the computer, which would be linked to the dispensing station. The clinic assistant would first scan the barcode on CCMG bottles, allowing the system to detect the type of CCMG being dispensed and then conduct dispensing on an electronic balance. The computerized system would show alert signals should the type or amount be different than that prescribed and consequently corrective measures could be undertaken immediately. The system fully utilizes the advantage of technology to ensure correct type and dosage of CCMG are dispensed. As a result, patients receive suitable and reliable medication from Nong's clinics.

Customer Satisfaction

The Group values customer feedback, which enables it to provide better products and services. To this end, the Group has a well-established mechanism to get feedback from the customers. The Group always hear the voices of its customers, respond to them promptly and improve the products and services continuously.

Moreover, the Group's marketing and sales team makes regular visits to hospitals, Chinese medicine clinics, medical institutions, and private Chinese medicine practitioners who prescribe and sell its CCMG products. Training and seminars are also provided to educate customers on the proper use of the Group's products, and collect customers' feedback on both the product quality and efficacy.



Employee Wellbeing

The Group endeavours to maintain a safe and caring work environment and provide talent development and training for employees so as to foster a tight-knitted working community.

Employment and Labour Standards

The Group is an equal opportunity employer and is committed to recruiting the best person for the job regardless of gender, marital status, family responsibility and race. In addition, strict adherence to labour and human rights are managed by Human Resources Department to avoid employing child labour and forced labour. The Group has complied with all relevant employment and labour laws and regulations of respective regions in the reporting period.

The success of the company business replies on a strong and engaged team of staff members. The Group has devoted different resources in order to retain and enhance the sense of belonging of the employees. The Group arranged regular staff activities such as bi-monthly birthday parties, Christmas parties, annual dinners, New Year celebrations, and so on.

The Group also provides its employees with a range of benefits, including the medical and life insurance scheme, the monthly free-product plan, special leave types such as birthday leave as well as moving residence leave.

With the implementation of family-friendly practices and policies for its employees, the Group was recognized as a Family-Friendly Employer by the Hong Kong Government Home Affairs Bureau.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Health and Safety


家 庭 友 善 僱 主 獎 勵 計 劃
Family-Friendly Employers Award Scheme

培力控股有限公司
PuraPharm Corporation Limited

獲評為「家庭友善僱主」， 特頒此狀 ， 以示表揚
is awarded this certificate in recognition of its being a
Family-Friendly Employer

政務司司長
Chief Secretary for Administration
二零一六年十月二十五日
25 October 2016

家庭友善僱主
FAMILY-FRIENDLY EMPLOYERS
2015/16

民政事務局
Home Affairs Bureau

家庭議會
Family Council

The Group is strongly committed to preventing and reducing hazards and risks related to its operations, and ensuring the health and safety of its employees and the surrounding environment. The Group has complied with the relevant health and occupational safety laws and regulations of respective regions in the reporting period.

The Group has adopted the principal health and safety measures as follows:

- Conducted regular and thorough inspections to identify occupational hazards and eliminate the risks
- Raised employee awareness of the requirements of occupational hazards and labour safety protection
- Provided occupational health and safety training
- Provided employees subject to occupational hazards an opportunity to undergo an annual medical examination

Development and Training

The Group offers a variety of training and career development opportunities for employees to enhance competency at work. A comprehensive training policy complemented by a training department is in place to structure and carry out the coordinating of training for staff across departments.

Based on the Group's vision, mission and strategy, PuraPharm University was set up to engage all training activities. It offers both online and offline training courses to enhance the employees' knowledge and to sharpen their skills in a flexible, convenient and efficient way.

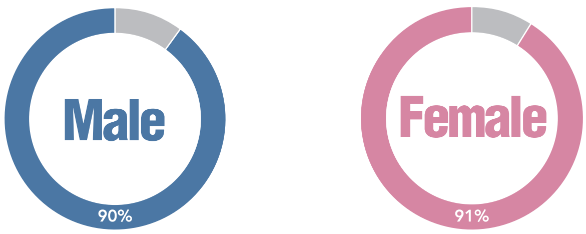
Online Learning Platform

The Group has designed diversified courses to cope with the needs and operations of the business and provide employees training and career development. The courses cover a wide range of topics, which aim to build leadership capability, enhance Chinese medicine knowledge, sharpen marketing skills, develop commercial awareness and communication skills, and so on.

Apart from the in-house training courses, the Group provides employees with educational sponsorship for external trainings.

In 2016, the Group recorded a high participation rate of the employees in training courses:

By gender



By employee category

Anti-corruption Policy

In order to ensure the overall wellbeing of the Group as a whole, an anti-corruption policy has been set up to prevent any bribery, extortion, fraud and money laundering. A designated department was appointed to regularly update and circulate the anti-corruption requirements to all employees. Trainings were also provided to raise awareness of the Group's strict stance on corruption activities.

Whistleblowing policy has been established to provide reporting channels and guidance on handling improprieties with regards to financial reporting or other legal matters, and reassurance to whistle-blower against any unfair disciplinary action or victimization for any genuine reports made.

The Group's Internal Audit Department would carry out the assessments and independent appraisals on the adequacy and effectiveness of the Group's anti-corruption management as a whole.

Social Wellbeing

The Group affirms the value of respecting people and is committed to contributing to the community. In 2016, the Group spent HK$4,923,000 in the form of donations, sponsorships and scholarships to contributions to youth development, elderly, institutions and promotion of healthy lifestyle.

Contributions to Youth Development

The Group firmly believes that young people are the pillars of future society. It is crucial to provide opportunities where the youth's energy may be utilized in a positive way.

PuraPharm participated in a wonderful and meaningful event in February 2016, supporting and sponsoring a Chinese Medicine Service Trip to the Philippines. The trip was organized by Chinese Medicine for All, Chinese University of Hong Kong (CUHK) and the Chinese Medicine Alumni Association of CUHK. A number of 4th year CUHK Chinese medicine students spent 8 days in the Philippines visiting a village with great resource and medical needs.

The Group looks forward to more meaningful trips to spread the benefits of Chinese medicine and spread love for communities abroad.

In addition, PuraPharm contributed to youth development in the following ways:

- Sponsored Nong's scholarships for students from CUHK, BU and HKU to encourage student's diligent study of Chinese medicine.

- Provided PuraPharm Academic Exchange Scholarships for the students of School of Pharmacy at CUHK to participate in an academic exchange programme affiliated with the overseas pharmacy school.

- Collaborated with a Canadian university to fund a research project on the biochemical and therapeutic investigation of Traditional Chinese Medicine. Besides, the Group funded a Visiting Scholar program in the same Canadian university to encourage academic exchange activities between the university and the world-class Traditional Chinese Medicine scholar.

- Provided scholarships by funding a PhD student at the King's Centre for Integrative Chinese Medicine (CICM) of King's College London. The PhD student's research focused on the process of fibrosis, and the use of TCM in its treatment. The evidence-based research is going a long way to bringing together traditional remedies with modern medicinal and scientific techniques, in order to further understand links between western and Chinese medicines, and develop new medicinal techniques for the future.

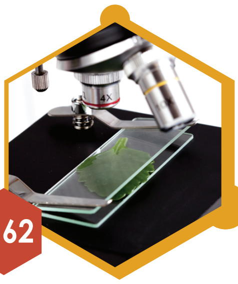
- Provided Job Shadowing Programme to enable students to understand the company operations and allow the students to observe the daily job duties of the assigned mentors

Contributions to the Elderly

From young to old, the Group has looked for ways to contribute to different needs of society, in particular for the elderly, disadvantaged and people with low mobility. To those targeted groups, the Group has partnered with multiple NGOs in the provision of mobile clinics. Mobile clinics are targeted to be located at poorer and secluded regions in Hong Kong such that convenience and affordable medical services can be brought to the doorstep of the general public who may have trouble accessing healthcare services in the city. The Group has contributed Chinese medicine products to 55 of such mobile clinics in the support for the mobile clinics initiative.

Contributions to Institutions

The Group is a keen supporter of Hong Kong's Tung Wah Flag Day 2016 organised by the Tung Wah Group of Hospitals. The Group's staff members served as volunteers to participate in this fund-raising event. Over 80 companies and organizations were invited to take part in the fund-raising event, amongst which PuraPharm was awarded the 1st runner-up of "the amount of donation raised". The goodwill and the monetary funds raised will benefit society as a whole.



Promotion of Healthy Lifestyle

During the reporting year, the Group has offered a series of free educational programmes to raise the public's awareness of health issues.

Oncozac healthcare product team dedicated their time to organize health seminars, and maintained social media platforms to promote health education to the general public. Medical professionals had been invited to conduct seminars on topics such as disease prevention via Chinese Medicine and integrative therapy for serious illness. Health tips were also shared on social media platform to arouse public interest and awareness on health maintenance. The Group also sponsored a radio programme《中醫藥透視》("Taking a look into Chinese Medicine")*, in each episode, a Chinese medicine practitioner is invited to share a Chinese medicine related topic and provide recommendation to the audience based on TCM theory.

In addition, the Group proactively encourages and supports sports events to promote a healthy lifestyle. This year, the Group was involved in the following activities:

- Sponsoring and promoting the Hong Kong Lawn Bowls Association's Men and Women's National Singles Championships.

- Donating basketball racks.

Donation of basketball racks in Nanning

* There are no official English translation for the radio programme, the translated name is for reference only

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Greenery at Nanning Manufacturing Plant

Environmental Wellbeing

The Group recognizes the importance of environmental protection. In this regard, it has a well-developed environmental policy and a set of measures in place to strike a balance between the Group's business operations and environmental protection.

Environmental Policy

The Group is aware of the importance of sustainable development. Protecting and improving the environment is in line with its commitment to dedicating itself to humanity's quest for longer, healthier and happier lives.

The Group carries out all activities in a manner that minimizes environmental impacts and conserves natural resources. In the reporting period, the Group has complied with all relevant environmental laws and regulations and allocated resources strategically to:

- Prevent air pollutant emissions
- Minimize indirect greenhouse gas emissions from electricity consumption
- Provide wastewater treatment and ensure proper discharge levels
- Reduce hazardous and non-hazardous waste generation

- Promote recycling internally and among customers and suppliers
- Use energy, water and other raw materials efficiently
- Minimize impacts on the environment and natural resources
- Seek continuous improvement on environmental matters

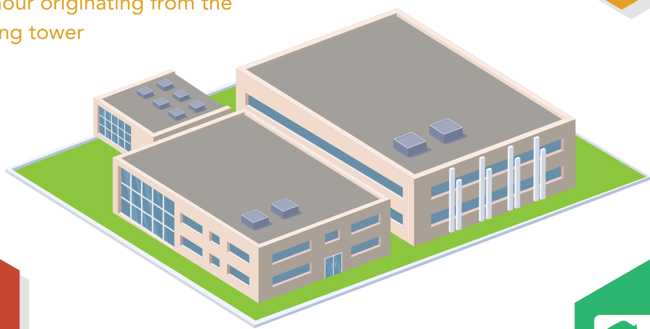
In this reporting period, the Group has just begun to develop its environmental policy, identify key performance indicators (KPI), and begin KPI data collection process. The data consolidation will allow the Group to formulate strategies to reduce emissions and optimise the use of resources in the future.

Furthermore, the Group plans to construct new manufacturing plants in the PRC. The new plants will target to be certified according to the Leadership in Energy and Environmental Design (LEED) certification programme. LEED-certified buildings are relatively more environmentally-friendly, taking in consideration the site selection, designs in energy usage, water usage, material selection and indoor environment quality. The pursuit of LEED certification is a testament to the Group's commitment to environmental protection and workplace wellbeing.

Environmental Considerations at Manufacturing Plant

Since the Nanning manufacturing plant represented the Group's largest environmental footprint, the following measures has been implemented to ensure operations were in an eco-friendly manner, such as:

- Ensured wastewater meets the Gradae I Integrated Wastewater Discharge Standards set by the PRC government allowing the safe discharge of wastewater into the municipal sewer network as well as other relevant wastewater discharge permits
- Equipped pre-processing cabins with bag filters to reduce air pollution
- Recirculate 400 cubic meters of steam and cooling water per hour originating from the cooling tower
- Installed a real-time monitoring system on wastewater discharge levels



- Applied the Mechanical Vapour Recompression (MVR) in more than 40% of the operations in order to concentrate liquid Chinese medicine extracts. The use of MVR system reduced steam consumption by 98.6%, water consumption by 99.4% and electricity consumption by 13.3% compared to conventional processes
- Explored opportunities to reuse Chinese medicine residues as fertilizers
- Constructed on-site sewage treatment plant which has the capacity to treat between 250 and 300 cubic meters of sewage per day, able to cater to the demands of production

Looking Forward

The Group endeavours to seek out new opportunities that would further advocate the use of modernised Chinese medicine, all the while promoting a message of social and environmental responsibility. As part of the future development on sustainability, the Group has recently acquired a plantation business, allowing more control over the management of quality and environmental matters on upstream business.

In the long run, the Group will continue to improve and develop upon the four essential elements of wellbeing: Customer Wellbeing, Employee Wellbeing, Social Wellbeing and Environmental Wellbeing. With a long-term commitment to sustainable development, the Group believes in the balance between business operations, environmental protection and contributions to society.

Corporate Governance Report

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2016.

Corporate Governance Practices of the Company

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). During the year ended 31 December 2016 (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 2016.

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 2016 is set out below:

Remuneration band (HK$)	Number of Individual
Nil–1,000,000	2
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 2016 are set out in Note 8 to the financial statements in this annual report.

3. Board Composition

As at 31 December 2016, 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 6 to 9 of this annual report.

As at 31 December 2016, the Board of the Company comprises the following Directors:

Executive Director	Mr. Chan Yu Ling, Abraham *(Chairman and Chief Executive Officer)* Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)* Mr. Chan Lung Sang (appointed on 22 August 2016) Mr. Leung Chin Man (Resigned on 22 August 2016) 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.

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. Chan Lung Sang's service contract which is for a term of one year commencing from 22 August 2016, and 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 serviced by either party on the other. The appointments are subject to the provisions of retirement and rotation of directors under the Articles.

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

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

5. Induction and Continuing Development for Directors

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

The Directors are continually provided with information related to the developments in the legal and regulatory regime and the business and market environments to facilitate the execution of their responsibilities. Continuing briefing and professional development for Directors were arranged by the Group and its legal advisers.

For the year ended 31 December 2016, 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 2016, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing their duties. The Company estimates that in the reasonably foreseeable future, there is little risk that there would be any event for which any Director shall take responsibility. Notwithstanding, the Company has arranged for appropriate directors and officers liability insurance in respect of legal action against the Directors.

7. Board Meetings and General Meetings

The Board discusses the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. The attendance records of each Director at the Board meetings and general meetings (whether in person or by means of electronic communication) held during the year ended 31 December 2016 are set out below:

Name of Director	Board Meeting	Annual general meeting
Mr. Chan Yu Ling, Abraham	5/5	1/1
Dr. Tsoi Kam Biu, Alvin	5/5	1/1
Mr. Chan Lung San, Calvin (appointed on 22 August 2016)	2/5	N/A
Ms. Man Yee Wai, Viola	5/5	1/1
Mr. Chan Kin Man, Eddie	3/5	1/1
Dr. Chan Kin Keung, Eugene	4/5	1/1
Dr. Leung Lim Kin, Simon	3/5	1/1
Mr. Ho Kwok Wah, George	5/5	1/1
Prof. Tsui Lap Chee	5/5	1/1
Mr. Leung Chin Man (resigned on 22 August 2016)	2/5	1/1

Practices and conduct of meetings

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

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

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

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

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

B. Board Committees

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

The majority of the members of the Remuneration Committee, Audit and Compliance Committee and Nomination Committee are Independent Non-executive Directors. Out of eight committee members of Scientific Advisory Committee, seven 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.

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 2016 are set out below:

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

2. Audit Committee

The company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the Code. The Audit Committee comprises three 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 2016 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 2016 are set out below:

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

3. Nomination Committee

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

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

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

During the 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 2016 are set out below:

Committee members	Meeting attended/ Total
Mr. Chan Yu Ling, Abraham *(Chairman)*	2/2
Dr. Chan Kin Keung, Eugene	1/2
Dr. Leung Lim Kin, Simon	2/2

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

Summary of the board diversity policy

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

4. Scientific Advisory Committee

The Company has established the Scientific Advisory Committee with written terms of reference in June 2015. As at 31 December 2016, the Scientific Advisory Committee comprises seven individuals who are not Director of the Company and one Executive Director:

Prof. Paul Vanhoutte *(Chairman)*
Prof. Rudolf Bauer
Mr. Chan Yu Ling, Abraham
Prof. Piu Chan
Prof. Peter Hylands
Prof. Liang Song Ming
Mr. Lin Jinn Sin
Prof. Bruce Robinson (appointed on 23 March 2016)

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

The attendance records of the Scientific Advisory Committee held during the year ended 31 December 2016 are set out below:

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

D. Model Code for Securities

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by directors. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the required standard of dealing as set out in the Model Code during the Review Period.

E. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the Financial Statements is set out in the "Independent Auditor's Report" on pages 103 to 108.

For the year ended 31 December 2016, 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 2016, 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.

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 2016, Mr. Cheng Hok Kai, Frederick had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

RISK

MANAGEMENT REPORT


120
3
117
114.5
25
14.5
76
85

RISK MANAGEMENT REPORT

Risk Governance

The Board has overall responsibility to the Group's risk management. The following highlights the key risk management measures and enhancements made by the Group during the year ended 31 December 2016:

- Management conducted annual Internal Control Self-Evaluation in 2016. Department heads confirmed that appropriate and effective internal control policies and procedures have been established and complied with.

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

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

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

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

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

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

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

Enterprise Risk Management Framework

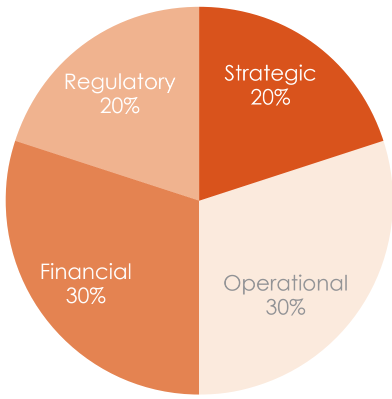
PuraPharm manages the risks associated with its business and operations in pursuit of its strategic and business objectives. The Group has established its own Enterprise Risk Management ("ERM") framework which is designated to enhance risk management and to provide reasonable assurance against material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

RISK MANAGEMENT REPORT

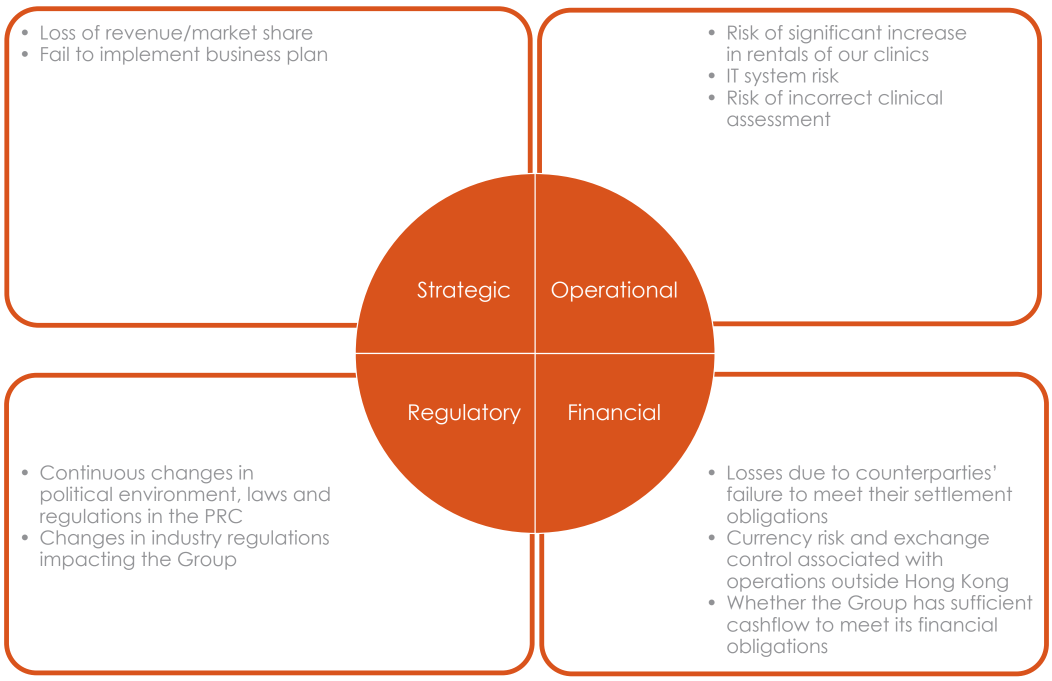
Significant Risks

In 2016, PuraPharm conducted an annual Group-wide risk assessment project based on the Group's ERM framework to review identified risks and assess the risks might arise from its businesses. The identified risks are rated by a combination of likelihood and consequences after considering current mitigation measures implemented regarding a risk matrix to get overall ratings. All identified risks are then ranked by the overall rating. The overall risk ratings reflect the required management attention and risk treatment effort. In the Group Risk Report, 4 categories of major risk types were identified and are illustrated in the diagram below.

Significant Risks



PuraPharm Key Risk Exposures:



Details of Key Risks Identified

Throughout the risk assessment process in 2016, followings are identified as material risks and respective mitigation plan(s):

Category	Risk identified	Mitigation plan(s)
Strategic	Loss of income/market share	• Maintain good relationship with customers and deliver quality products timely • Commit substantial effort in promoting the Group's brand and providing quality product
Strategic	Fail to implement business plan	• Continue monitoring the impact of market changes to the Group's plan
Operational	Risk of significant increase in rentals of the Group's clinics	• Continue monitoring the rental market of commercial properties
Operational	IT system risk	• Establish recovery plan and regular back up system data
Operational	Risk of incorrect clinical assessment	• Partner with experienced Chinese medicine practitioners • All partnering Chinese medicine practitioners are covered by professional indemnity insurance
Regulatory	Continuous changes in political environment, laws and regulations in the PRC	• Continue monitoring and assessing impact of relevant changes
Regulatory	Changes in industry regulations impacting the Group	• Designated team to monitor and handle compliance issues related to production and product licenses • Coordinate with regulators to minimise impact of changes to the Group
Financial	Losses due to counterparties' failure to meet their settlement obligations	• With guidelines to control approval of credit limit and credit terms
Financial	Currency risk and exchange control associated with operations outside Hong Kong	• Consider making RMB and JPY loans in the PRC and Japan to support operations and expansions there • Buy in foreign currencies as reserve for future use when they depreciate against HKD to suitable rate
Financial	Whether the Group has sufficient cashflow to meet its financial obligations	• Monitor the Group's cashflow and expansion status • Implement tighter budget control

Report of the Directors

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2016.

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 36 to 46 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 2016 and the Group's financial position at that date are set out in the financial statements on pages 109 to 193.

The Board recommends the payment of a final dividend of HK2.02 cents per share of the Company for the year ended 31 December 2016 to the shareholders of the Company (the "2016 Final Dividend"). Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting, the 2016 Final Dividend will be paid to shareholders whose names appear on the register of members of the Company on 2 June 2017.

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 2016, the Group had utilised approximately HK$134.2 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%	28.8
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	32.4
To expand distribution network into new target cities in the PRC	57.7	20%	36.8
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	7.4
Additional working capital of the Group	28.8	10%	28.8
	288.4	100%	134.2

Summary Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, and an analysis of the Group's performance using financial key performance indicators is set out on page 194 to 195. This summary does not form part of the audited financial statements.

Share Capital and Share Options

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 3,021,000 Shares purchased through the Stock Exchange for an aggregate consideration of approximately HK$10,019,000 by the Share Award Scheme Trust, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities throughout the year ended 31 December 2016.

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 2016, the Company's reserves available for distribution amounted to approximately HK$166,405,000, of which approximately HK$4.5 million has been proposed as a final dividend for the year.

Charitable Contributions

During the year, the Group made charitable contributions totaling HK$1.2 million.

Major Customers And Suppliers

In the year under review, sales to the Group's five largest customers accounted for 19.9% (2015: 24.0%) of the total sales for the year and sales to the largest customer included therein amounted to 4.8% (2015: 7.4%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year 2016 (2015: less than 30%).

Directors

The directors of the Company during the year were:

Chairman:

Mr. Chan Yu Ling, Abraham

Executive directors:

Dr. Tsoi Kam Biu, Alvin
Mr. Chan Lung Sang (appointed on 22 August 2016)
Mr. Leung Chin Man (resigned on 22 August 2016)
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

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 6 to 14 of the annual report.

Directors' Service Contracts

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date (save for Mr. Leung Chin Man's service contract which is for a term of one year commencing from the Listing Date and Mr. Chan Lang Sang's service contract which is for a term of one year commencing from appointment 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 serviced by either party on the other. The appointments are subject to the provisions of retirement and rotation of directors under the Articles. None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Remuneration

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

Permitted Indemnity Provision

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

Directors' And Chief Executives' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2016, 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%
	Beneficial owner	1,317,500(L)	0.59%
	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	130,170,000(L)(6)	57.86%
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Interest of controlled corporations	3,125,000(L)(7)	1.39%

Notes:

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

2. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

Save as disclosed above, as at 31 December 2016, 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 2016, 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 31 December 2016, 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(a) to the financial statements .

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

Share Award Scheme

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

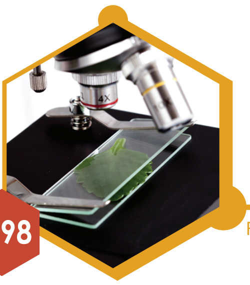
1. to recognise and motivate the contributions by certain Eligible Award Participants and to give incentives thereto in order to retain them for the continual operation and development of the Group;

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

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

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

The Board has further resolved in February 2016 that a sum of HK$10,000,000 be provided for the purchase of the Shares to be awarded to the Eligible Award Participants to be selected by the Board. During the year ended 31 December 2016, the Share Award Scheme Trust purchased a total of 3,021,000 Shares through the Stock Exchange for an aggregate consideration of approximately HK$10,019,000.



As at 31 December 2016, the Share Award Scheme Trust held 3,021,000 Shares (2015: Nil). No Shares were granted to the Eligible Award Participants during the year ended 31 December 2016.

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 2016, the Group purchase raw Chinese herbs of HK$9,338,000 from Gold Sparkle Plantation Group, which was within the annual cap of HK$9.6 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.

The related party transactions set out in note 31 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 31 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 36 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
27 March 2017

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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Central, Hong Kong

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

Opinion

We have audited the consolidated financial statements of PuraPharm Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 109 to 193, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

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

Key audit matters	How our audit addressed the key audit matter
Inventory provision	
As at 31 December 2016, the Group had inventories of HK$167,064,000, after making provision of HK$2,509,000. The Group's inventories comprise over 800 types of concentrated Chinese medicine granule ("CCMG") products and Chinese healthcare products and need to maintain each inventory at an appropriate level to meet the diversified market needs. We focused on this area because inventory provisions include significant judgement and estimation of the respective net realisable values of each of these inventory items which are influenced by assumptions concerning future sales and management judgment on determining the appropriate level of inventory provisioning against identified surplus or obsolete items. Significant judgements and estimation are also required in determining provision for excess and obsolete inventories as these are based on forecast inventory usage and assessing if the provision level is adequate. The related disclosures on inventory provision are included in notes 3 and 17.	Our audit procedures included evaluating management's key assumptions to determine the appropriate carrying value of inventories. We also assessed the Group's internal controls over the inventory provision in particular its internal "inventory expiry status monitoring system" implemented by its supply chain management department. We considered the specific inventory items' remaining expiry period and compared the estimates of expected future sales of inventories to the recent sales prices and sales rate. Furthermore, we recalculated the expected provision based on the above key assumptions.

Key audit matters	How our audit addressed the key audit matter
Trade receivables provision As at 31 December 2016, the Group had trade receivables of HK$231,689,000, after making provision of HK$4,517,000. The determination as to whether a trade receivable is collectable involves management's estimation. Specific factors the management considers include the age of the balance, business scales of customers, credit histories, recent and historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's overall balance. We focused on this area because of the high level of management estimation it required and the materiality of the amounts involved. The related disclosures on trade receivables provision are included in notes 3 and 18.	We assessed the Group's internal controls over the credit control of trade receivables. We also reviewed the managements' assessment regarding the recoverability of the Group's aged and overdue receivables by evaluating the assumptions and methodologies used by the managements and obtaining evidences to support the management's assessment including business scales of the customers, analysis of the available financial information of the key debtors, historical payment pattern, and repayment plan.
Deferred tax asset against tax loss As at 31 December 2016, the Group has recorded deferred tax assets of HK$11,584,000, which are resulting from tax losses carried forward. The Company recognizes these deferred tax assets to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. The probability of recovery is impacted by uncertainties regarding the likely timing and level of future taxable profits, together with tax planning strategies and the expiration date of losses. We focused on this area as the estimation process is highly based on assumptions which are influenced by projected future market and economic conditions. The related disclosures on deferred tax asset against tax loss are included in notes 3 and 25.	Our audit procedures included evaluating assumptions and methodologies used by the Company to determine the recoverable amount per tax jurisdiction. Furthermore, we also ascertained that information used was derived from the Company's business plans that have been subject to internal reviews and were approved by those charged with governance. We have also reviewed profit forecast prepared by the management to ensure there is sufficient certainty over the ability of the Group to utilise these losses and that recognition of the related deferred tax assets is appropriate.

Other Information Included in the Annual Report

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

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

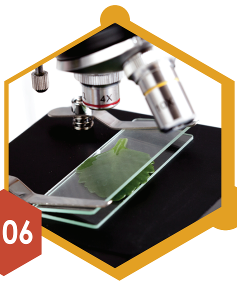
The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hui Kin Fai Stephen.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	5	535,986	473,900
Cost of sales		(187,182)	(168,168)
Gross profit		348,804	305,732
Other income and gains	5	10,796	8,212
Selling and distribution expenses		(154,380)	(140,214)
Administrative expenses		(154,001)	(119,376)
Other expenses		(3,221)	(3,977)
Finance costs	7	(9,331)	(10,243)
PROFIT BEFORE TAX	6	38,667	40,134
Income tax expense	10	(6,505)	(11,676)
PROFIT FOR THE YEAR		32,162	28,458
Attributable to:			
Owners of the parent		32,162	28,458
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted (expressed in HK$ per share)		0.14	0.15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	32,162	28,458
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	413	(212)
Income tax effect	(68)	35
	345	(177)
Exchange differences on translation of foreign operations	(17,757)	(9,306)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(17,412)	(9,483)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	14,750	18,975
Attributable to:		
Owners of the parent	14,750	18,975

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

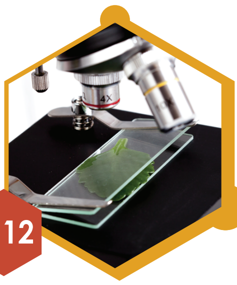
	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	117,383	93,713
Prepaid land lease payments	14	23,070	25,253
Intangible assets	15	26,470	8,939
Available-for-sale investments	16	13,760	13,348
Prepayments for non-current assets	19	8,845	8,035
Deferred tax assets	25	12,200	6,872
Total non-current assets		201,728	156,160
CURRENT ASSETS			
Inventories	17	167,064	107,987
Trade and bills receivables	18	231,689	161,018
Prepayments, deposits and other receivables	19	39,638	33,924
Pledged bank deposits	20	11,000	6,000
Cash and cash equivalents	20	209,129	232,243
Total current assets		658,520	541,172
CURRENT LIABILITIES			
Trade payables	21	74,191	38,091
Other payables and accruals	22	58,341	56,468
Interest-bearing bank borrowings	23	261,048	125,431
Tax payable		7,227	4,668
Government grants	24	1,953	1,294
Total current liabilities		402,760	225,952
NET CURRENT ASSETS		255,760	315,220
TOTAL ASSETS LESS CURRENT LIABILITIES		457,488	471,380

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Government grants	24	1,399	1,497
Deferred tax liabilities	25	1,584	173
Total non-current liabilities		2,983	1,670
Net assets		454,505	469,710
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	174,375	174,375
Shares held for share award scheme	27	(10,019)	–
Reserves	28	290,149	295,335
Total equity		454,505	469,710

Director *Director*



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent									
	Share capital HK$'000 (note 26)	Share premium account HK$'000 (note 26)	Shares held for share award scheme HK$'000 (note 27)	Merger reserve HK$'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
At 1 January 2016	174,375	170,552	–	1,814	24,685	(7,505)	124	280	105,385	469,710
Profit for the year	–	–	–	–	–	–	–	–	32,162	32,162
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	345	–	–	345
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(17,757)	–	(17,757)
Total comprehensive income for the year	–	–	–	–	–	–	345	(17,757)	32,162	14,750
Final 2015 dividend	–	(19,936)	–	–	–	–	–	–	–	(19,936)
Purchase of shares held for shard award scheme	–	–	(10,019)	–	–	–	–	–	–	(10,019)
At 31 December 2016	174,375	150,616*	(10,019)	1,814*	24,685*	(7,505)*	469*	(17,477)*	137,547*	454,505

* These reserve accounts comprise the consolidated reserves of HK$290,149,000 (2015: HK$295,335,000) in the consolidated statement of financial position as at 31 December 2016.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		38,667	40,134
Adjustments for:			
Finance costs	7	9,331	10,243
Bank interest income		(710)	(833)
Foreign exchange (gain)/loss, net	6	1,739	(150)
Loss on disposal of items of property, plant and equipment		100	143
Depreciation	13	13,971	12,110
Amortisation of prepaid land lease payments	14	526	395
Amortisation of intangible assets		2,570	1,117
Impairment of trade receivables		3,708	1,522
Write-down of inventories to net realisable value		1,608	3,183
		71,510	67,864
Increase in inventories		(69,807)	(21,669)
Increase in trade and bills receivables		(85,840)	(59,298)
(Increase)/decrease in prepayments, deposits and other receivables		(3,975)	1,222
Increase/(decrease) in trade payables		40,009	(6,455)
Increase/(decrease) in government grants		561	(622)
Increase in other payables and accruals		705	17,978
Cash used in operations		(46,837)	(980)
Interest received		710	833
Hong Kong profits tax paid		(703)	(2,976)
PRC profit taxes paid		(8,998)	(9,447)
Net cash flows uesd in operating activities		(55,828)	(12,570)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(41,284)	(28,415)
Proceeds from disposal of items of property, plant and equipment		–	1,164
Addition to prepaid land lease payments		–	(24,145)
Additions to intangible assets		(18,924)	(4,666)
Advance to a director		–	(432)
Repayment from a director		–	254
Repayments from related companies		–	240
Advances to the immediate holding company		–	(365)
Purchases of available-for-sale investments		–	(3,028)
(Increase)/decrease in pledged time deposits, net		(5,000)	14,633
Net cash flows used in investing activities		(65,208)	(44,760)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	336,375
Share issue expenses		–	(21,448)
New bank loans		426,568	327,765
Repayment of bank loans		(284,581)	(364,652)
Interest paid		(9,331)	(10,243)
Purchase of shares held for share award scheme	27(b)	(10,019)	–
Dividends paid	11	(19,936)	–
Net cash flows from financing activities		102,701	267,797
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(18,335)	210,467
Cash and cash equivalents at beginning of year		232,243	30,675
Effect of foreign exchange rate changes, net		(4,779)	(8,899)
CASH AND CASH EQUIVALENTS AT END OF YEAR		209,129	232,243
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	209,129	232,243
Cash and cash equivalents as stated in the statement of cash flows		209,129	232,243

1. Corporate and Group Information

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

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

As at 31 December 2016, 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	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PuraPharm Holdings Limited[(a)]	BVI	US$1	100%	–	Investment holding
Natural Corporation Limited[(a)]	Hong Kong	HK$100	–	100%	Trading of Chinese healthcare products
PuraPharm International (H.K.) Limited[(b)]	Hong Kong	HK$2,000,000	–	100%	Manufacture and trading of Chinese healthcare products
Nong's International Limited[(a)]	BVI	US$1	–	100%	Investment holding and trading of Chinese healthcare products and modernised Chinese medicines

1. Corporate and Group Information (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PuraPharm (Nanning) Pharmaceuticals Co. Limited[(a)(c)]	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)]	Singapore	SG$2	–	100%	Trading of Chinese healthcare products
PuraPharm Corporation[(a)]	United States of America	US$1,000	–	100%	Trading of Chinese healthcare products
Nong's Corporation Limited[(a)]	BVI	US$25,019	–	100%	Investment holding
Purapharm Research Corporation Limited[(a)]	Hong Kong	HK$10,000	–	100%	Research and development of modernised Chinese medicines
PuraPharm International Limited[(a)]	Hong Kong	HK$2	–	100%	Trading of Chinese healthcare products
Nong's Company Limited[(b)]	Hong Kong	HK$2	–	100%	Trading of modernised Chinese medicines
Nong's Chinese Medicine Health Care Centre Limited[(a)]	Hong Kong	HK$10,000	–	100%	Provision of Chinese medical diagnostic services
Poly Modern TCM Research Institute Limited[(a)]	Hong Kong	HK$48,160,000	–	100%	Trading of Chinese healthcare products
Nong's Clinic Holdings Limited[(a)]	BVI	US$1,283	–	100%	Investment holding
Nong's Chinese Medicine Clinic Centre Limited[(a)]	Hong Kong	HK$2	–	100%	Provision of Chinese medical diagnostic services

1. Corporate and Group Information (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PuraPharm Investment Limited[a]	Hong Kong	HK$1	–	100%	Trading of Chinese medicines
PuraPharm Australia Pty Ltd[a]	Australia	AU$1	–	100%	Trading of Chinese healthcare products
PuraPharm Health Limited[a]	BVI	US$1	–	100%	Investment holding
PuraPharm (Macao) Limited[a]	Macau	MOP25,000	–	100%	Trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm Canada Corporation[a]	Canada	HK$100	–	100%	Trading of Chinese healthcare products
Nong's (Guangxi) Company Limited[a]	Hong Kong	HK$10,000	–	100%	Investment holding
南寧培力醫藥技術有限公司[a], [c]	PRC/Mainland China	RMB2,000,000	–	100%	Research and development of Chinese healthcare products and modernised Chinese medicines
Nong's Healthcare 1 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 2 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services

1. Corporate and Group Information (continued)

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

1. Corporate and Group Information (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Nong's Healthcare 14 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 15 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 16 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 17 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 18 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 19 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 20 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 21 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 22 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 23 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 24 Limited[a]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services

1. Corporate and Group Information (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nong's Healthcare 25 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 26 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 27 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 28 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 29 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 30 Limited[(a)]	Hong Kong	HK$1	–	100%	Provision of Chinese medical diagnostic services
PuraPharm Japan Corporation[(a)]	Japan	JPY10,000	–	100%	Research and development of new products

(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.

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 Hong Kong Companies Ordinance 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 investment properties, certain buildings classified as property, plant and equipment, derivative financial instruments and equity 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 (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 Basis of Preparation (continued)

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

2.2 Changes In Accounting Policies and Disclosures

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but 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, except HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases*, 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.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018, and is in the process of making an assessment on the impact of the adoption of HKFRS 15.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKFRS 16 replaces HKAS 17 *Leases*, HKFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

2.4 Summary of Significant Accounting Policies

Business combinations and goodwill

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

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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.

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.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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

Fair value measurement

The Group measures its investment properties, 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.

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

2.4 Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

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

Impairment of non-financial assets

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

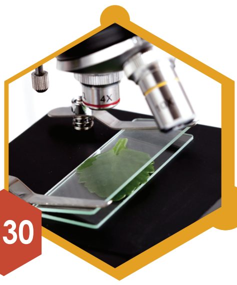
(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

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

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

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



2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

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

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

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

Buildings	2.5% to 9%
Leasehold improvements	Over the shorter of the lease terms and 20%
Machinery and equipment	4.5% to 30%
Office equipment and furniture	9% to 30%
Motor vehicles	9% to 20%

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill)

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

Trademarks, patents, licences and software

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

Research and development costs

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

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

Leases

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

2.4 Summary of Significant Accounting Policies (continued)

Leases (continued)

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.

Subsequent measurement

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

Loans and receivables

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

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

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 earned whilst holding the available-for-sale financial investments are reported as interest income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policy set out for "Revenue recognition" below.

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

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

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).

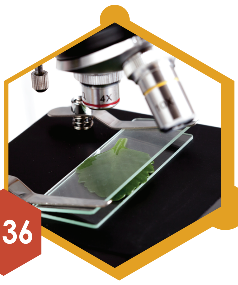
The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of 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.



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. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial liabilities

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

Cash and cash equivalents

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

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

Provisions

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

2.4 Summary of Significant Accounting Policies (continued)

Provisions (continued)

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

Income tax

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

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

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

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition

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

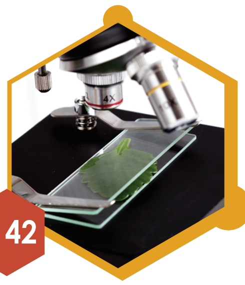
Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Foreign currencies

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

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



2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

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

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

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

3. Significant Accounting Judgements and Estimates

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

3. Significant Accounting Judgements and Estimates (continued)

Judgements

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

Withholding taxes arising from the distribution of dividends

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

Estimation uncertainty

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

Impairment of 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.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

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

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. Further details are given in notes 18 and 19 to the financial statements.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision required involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed. Further details are given in note 17 to the financial statements.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

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. Further details are given in note 16 to the financial statements.

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has 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 sale 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.

4. Operating Segment Information (continued)

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2016 and 2015.

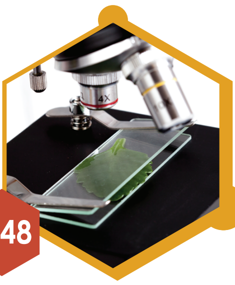
31 December 2016

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

4. Operating Segment Information (continued)

31 December 2015

	China CCMG HK$'000	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue:						
Revenue to external customers	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
Reconciliations:						
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 receivables	699	–	823	–	–	1,522



4. Operating Segment Information (continued)

Geographical information

(a) Revenue from external customers

	2016 HK$'000	2015 HK$'000
Hong Kong	266,191	219,440
Mainland China	269,795	254,460
	535,986	473,900

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

(b) Non-current assets

	2016 HK$'000	2015 HK$'000
Hong Kong	52,626	25,808
Mainland China	123,142	110,132
	175,768	135,940

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

Information about major customer

For the years ended 31 December 2016 and 2015, 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 operations is as follows:

	2016 HK$'000	2015 HK$'000
Revenue		
Sale of CCMG and Chinese healthcare products	521,069	468,665
Rendering of Chinese medical diagnostic services	14,917	5,235
	535,986	473,900
Other income and gains		
Government grants*	7,780	5,567
Bank interest income	710	833
Gain from the sale of equipment and accessories	2,201	1,522
Foreign exchange gain, net	–	150
Others	105	140
	10,796	8,212

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

6. Profit Before Tax

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		179,934	162,445
Cost of services provided		7,248	2,540
Depreciation	13	13,971	12,110
Amortisation of			
Prepaid land lease payments	14	526	395
Intangible assets	15	2,570	1,117
		3,096	1,512
Research and development costs*		18,115	15,603
Minimum lease payments under operating leases			
Office equipment		226	190
Land and buildings		23,152	13,089
		23,378	13,279
Auditor's remuneration		2,305	2,042
Listing expense		–	18,999
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		101,283	80,042
Pension scheme contributions		12,467	11,512
		113,750	91,554
Foreign exchange (gain)/loss, net**		1,739	(150)
Impairment of trade and bills receivables		3,708	1,522
Write-down of inventories to net realisable value***		1,608	3,183
Loss on disposal of items of property, plant and equipment		224	143

* Included in the research and development costs, HK$632,000 (2015: HK$714,000) is disclosed in the item of "Depreciation" and HK$8,709,000 (2015: HK$7,000,000) is disclosed in the item of "Employee benefit expense" for the year ended 31 December 2016.

** The net foreign exchange (gain)/loss was included in "Other expenses" (2015: "Other income and gains") in the consolidated statement of profit or loss for the year ended 31 December 2016.

*** The write-down of inventories to net realisable value is Included in the "Cost of sales" in the consolidated statement of profit or loss for the years ended 31 December 2016 and 2015.

7. Finance Costs

An analysis of finance costs is as follows:

	2016 HK$'000	2015 HK$'000
Interest on bank loans	9,331	10,243

8. Directors' and Chief Executive's Remuneration

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

	Group	
	2016 HK$'000	2015 HK$'000
Fees	1,000	500
Other emoluments:		
Salaries, allowances and benefits in kind	11,656	9,153
Pension scheme contributions	60	54
	11,716	9,207
	12,716	9,707

(a) Independent non-executive directors

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

	2016 HK$'000	2015 HK$'000
Dr. Leung Lim Kin, Simon	200	100
Prof. Tsui Lap Chee	200	100
Dr. Chan Kin Keung, Eugene	200	100
Mr. Ho Kwok Wah, George	200	100
	800	400

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2016 and 2015.

8. Directors' and Chief Executive's Remuneration (continued)

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

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

* Mr. Leung Chin Man resigned as executive director of the Group on 22 August 2016.

** Mr. Chan Lung Sang was appointed as executive director of the Group on 22 August 2016.

8. Directors' and Chief Executive's Remuneration (continued)

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
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

There was no arrangement under which executive directors waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

9. Five Highest Paid Employees

The five highest paid employees during the year included two directors (2015: three directors), details of whose remuneration are set out in note 8. Details of the remuneration for the year of the remaining three (2015: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	6,100	3,701
Pension scheme contributions	54	36
	6,154	3,737

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

	Number of employees	
	2016	2015
HK$1,500,001 to HK$2,000,000	2	2
HK$2,000,001 to HK$2,500,000	1	–
	3	2

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 2016 and 2015. 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%.

	2016 HK$'000	2015 HK$'000
Current	10,457	13,393
Deferred (note 25)	(3,952)	(1,717)
Total tax charge for the year	6,505	11,676

10. Income Tax (continued)

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

2016

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

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 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

11. Dividends

	2016 HK$'000	2015 HK$'000
Proposed final — HK2.02 cents (2015: HK8.89 cents) per ordinary share	4,545	20,003*

The proposed 2016 final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

* The 2015 proposed final dividends of HK$20,003,000 has been approved by shareholders at the annual general meeting on 25 May 2016 and were subsequently distributed in June 2016. The net dividends of HK$19,936,000, after deducting dividends of HK$67,000 paid to the share award scheme (note 27(b)), is treated as transaction with owners of the parent in the consolidated statement of changes in equity during the year ended 31 December 2016.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

	2016 HK$	2015 HK$
Earnings per share attributable to ordinary equity holders of the parent — Basic and diluted	0.14	0.15

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.

The calculation of basic earnings per share is based on:

	2016 HK$'000	2015 HK$'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	32,162	28,458

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent (continued)

The calculation of the weighted average number of ordinary shares amounting to 223,444,571 (2015: 195,873,288) in issue for the year ended 31 December 2016, as adjusted to reflect the shares held for share award scheme, is as follows:

	Notes	2016	2015
Number of issued shares on 1 January	26	225,000,000	3,870,968
Effect of the Subdivision of Shares on 12 June 2015	26	–	34,838,712
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
Adjustment for shares held for share award scheme	27(b)	(1,555,429)	–
Weighted average number of ordinary shares		223,444,571	195,873,288

No adjustment has been made to the basic earnings per share amounts presented for the years 2016 and 2015 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during those years.

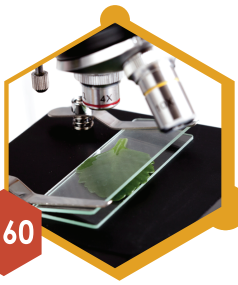
13. Property, Plant and Equipment

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

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 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

As at 31 December 2016, certain of the Group's buildings, machinery and equipment and office equipment and furniture with an aggregate net carrying amount of approximately HK$54,124,000 (2015: HK$56,161,000) were pledged to secure bank loans granted to the Group (note 23).



14. Prepaid Land Lease Payments

	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January	25,789	2,909
Addition	–	24,145
Amortised during the year	(526)	(395)
Exchange realignment	(1,687)	(870)
Carrying amount at 31 December	23,576	25,789
Current portion included in prepayments, deposits and other receivables	(506)	(536)
Non-current portion	23,070	25,253

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

As at 31 December 2016, certain of the Group's leasehold land with a net carrying amount of approximately HK$2,779,000 (2015: HK$2,704,000) 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 2016					
At 31 December 2015 and at 1 January 2016:					
Cost	10,843	601	1,281	2,062	14,787
Accumulated amortisation	(3,517)	(376)	(1,281)	(674)	(5,848)
Net carrying amount	7,326	225	–	1,388	8,939
Cost at 1 January 2016, net of accumulated amortisation	7,326	225	–	1,388	8,939
Additions*	9,856	73	–	10,253	20,182
Amortisation provided during the year	(1,247)	(59)	–	(1,264)	(2,570)
Exchange realignment	–	–	–	(81)	(81)
At 31 December 2016	15,935	239	–	10,296	26,470
At 31 December 2016:					
Cost	20,699	674	1,281	12,177	34,831
Accumulated amortisation	(4,764)	(435)	(1,281)	(1,881)	(8,361)
Net carrying amount	15,935	239	–	10,296	26,470

* The addition of intangible assets during the year 2016 included the acquisition of intangible assets from a related party amounted to HK$8,561,000. Further disclosed are disclosed in note 31(b)(iii).

15. Intangible Assets (continued)

	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

16. Available-For-Sale Investments

	2016 HK$'000	2015 HK$'000
Life insurance policies, at fair value	13,760	13,348

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

During the year, the gross gain 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$345,000 (2015: HK$177,000).

As at 31 December 2016, the Group's available-for-sale investments with a fair value of HK$2,570,000 (2015: HK$10,849,000) was pledged as security for the loans granted to the Group (note 23).

17. Inventories

	2016 HK$'000	2015 HK$'000
Raw materials	64,358	34,803
Work in progress	24,945	21,172
Finished goods	80,270	56,590
	169,573	112,565
Less: Provision	(2,509)	(4,578)
	167,064	107,987

For the year ended 31 December 2016, the write-down of inventories recognised at cost of sales amounted to HK$1,608,000 (2015: HK$3,183,000).

At 31 December 2016, the Group's inventories with a carrying amount of HK$39,022,000 (2015: HK$35,819,000) were pledged as security for the loans granted to the Group (note 23).

18. Trade and Bills Receivables

	2016 HK$'000	2015 HK$'000
Trade receivables	234,652	159,137
Bills receivable	1,554	2,910
	236,206	162,047
Less: Impairment of trade and bills receivables	(4,517)	(1,029)
	231,689	161,018

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 aging analysis of the trade and bills receivables as at 31 December 2016 and 2015, based on the invoice date and net of impairment, is as follows:

	2016 HK$'000	2015 HK$'000
Within 1 month	124,199	97,500
1 to 3 months	42,690	22,213
3 to 6 months	24,841	18,236
Over 6 months	39,959	23,069
	231,689	161,018

18. Trade and Bills Receivables (continued)

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

	2016 HK$'000	2015 HK$'000
At beginning of year	1,029	338
Impairment losses recognised (note 6)	3,708	1,522
Amount written off as uncollectible	–	(823)
Exchange realignment	(220)	(8)
	4,517	1,029

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$4,517,000 (2015: HK$1,029,000) with a carrying amount before provision of HK$16,277,000 (2015: HK$1,029,000).

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

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

	2016 HK$'000	2015 HK$'000
Neither past due nor impaired	156,620	101,455
Less than 1 month past due	31,212	26,144
1 to 2 months past due	5,575	6,219
2 to 3 months past due	3,935	3,904
Over 3 months past due	22,587	23,296
	219,929	161,018

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 of HK$17,037,000 were pledged as security for the Group's bank loans (note 23).

19. Prepayments, Deposits and Other Receivables

	2016 HK$'000	2015 HK$'000
Prepayments	26,919	29,788
Receivables from third party agents	6,826	3,003
Deposits and other receivables	14,973	9,420
	48,718	42,211
Less: Impairment of other receivables	(235)	(252)
	48,483	41,959
Portion classified as non-current	(8,845)	(8,035)
Current portion	39,638	33,924

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

	2016 HK$'000	2015 HK$'000
At 1 January	252	257
Exchange realignment	(17)	(5)
At 31 December	235	252

Included in the above provision for impairment of other receivables is provision for individually impaired other receivable of HK$235,000 (2015: HK$252,000) with a carrying amount before provision of HK$235,000 (2015: HK$252,000). 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 were pledged as security for the Group's bank loans (note 23).

20. Cash and Cash Equivalents and Pledged Deposits

	Note	2016 HK$'000	2015 HK$'000
Cash and bank balances		209,129	232,243
Time deposits		11,000	6,000
		220,129	238,243
Less: Pledged time deposits for bank loans	23(d)	(11,000)	(6,000)
Cash and cash equivalents		209,129	232,243
Denominated in HK$		167,095	191,258
Denominated in RMB		21,782	40,985
Denominated in JPY		14,691	–
Denominated in CAD		3,158	–
Denominated in AUD		2,403	–
Cash and cash equivalents		209,129	232,243

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.

21. Trade Payables

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

	2016 HK$'000	2015 HK$'000
Within 1 month	35,736	22,193
1 to 2 months	22,687	9,919
2 to 3 months	12,747	4,142
Over 3 months	3,021	1,837
	74,191	38,091

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

Included in the trade payables is an amount due to a related company of HK$147,000 (2015: HK$840,000) as at 31 December 2016, which is settled on the term of two months.

22. Other Payables and Accruals

	2016 HK$'000	2015 HK$'000
Other payables	29,299	28,639
Accruals	26,794	22,325
Advance from customers	2,248	5,504
	58,341	56,468

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

23. Interest-Bearing Bank Borrowings

	2016			2015		
Current	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Bank loans — secured (a)	2.70–5.22	On demand	109,270	2.87–7.80	On demand/ 2016	110,972
Bank loans — unsecured (a)	1.90–6.00	On demand	151,778	2.66–6.00	On demand	14,459
			261,048			125,431

	2016 HK$'000	2015 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	261,048	125,431

Interest-bearing bank and overdrafts are denominated in:

	2016 HK$'000	2015 HK$'000
HK$	166,778	33,973
RMB	94,270	91,458
	261,048	125,431

(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$261,048,000 (2015: HK$125,212,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$4,481,000 (2015: HK$2,522,000) that is repayable after one year from the end of 2016 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.

23. Interest-Bearing Bank Borrowings (continued)

(b) As at 31 December 2016, the Group's bank facilities including overdraft amounted to HK$458,595,000 (2015: HK$239,535,000), of which HK$261,048,000 (2015: HK$125,431,000) had been utilised.

(c) As at 31 December 2016, the Group was not in compliance with certain financial loan covenants and the respective bank loans of HK$24,518,000 would become callable on demand. No further reclassification is needed regarding these bank loans since they all included the repayment on demand clause and have already been classified as a current liability as mentioned in 23(a).

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

	Notes	Carrying value 2016 HK$'000	 2015 HK$'000
Property, plant and equipment	13	54,124	56,161
Prepaid land lease payments	14	2,779	2,704
Available-for-sale investments	16	2,570	10,849
Inventories	17	39,022	35,819
Trade and bills receivables	18	–	17,037
Prepayments, deposits and other receivables	19	–	689
Pledged bank deposits	20	11,000	6,000
		109,495	129,259

24. Government Grants

	2016 HK$'000	2015 HK$'000
At 1 January	2,791	3,413
Government grants received during the year	8,511	5,083
Amounts released to the statement of profit or loss (note 5)	(7,780)	(5,567)
Exchange realignment	(170)	(138)
At 31 December	3,352	2,791
Portion classified as current liabilities	(1,953)	(1,294)
Non-current portion	1,399	1,497

25. Deferred Tax

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

Deferred tax assets

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

	2015					
	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 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

25. Deferred Tax (continued)

Deferred tax liabilities

	Depreciation and amortisation allowance in excess of related depreciation and amortisation	
	2016 HK$'000	2015 HK$'000
At 1 January	1,237	1,054
Deferred tax charged to the statement of profit or loss during the year (note 10)	2,779	183
Gross deferred tax liabilities at 31 December	4,016	1,237

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:

	2016 HK$'000	2015 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	12,200	6,872
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,584)	(173)
	10,616	6,699

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.

25. Deferred Tax (continued)

Deferred tax liabilities (continued)

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the Directors, based on the Group's expansion plan in Mainland China and the cash flow generated in Hong Kong, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. As at 31 December 2016, 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$171,359,000 (2015: HK$101,527,000).

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

26. Share Capital

Shares

	2016 HK$'000	2015 HK$'000
Authorised: 50,000,000,000 ordinary shares of US$0.1 (HK$0.775) each	38,750,000	38,750,000
Issued and fully paid: 225,000,000 ordinary shares of US$0.1 (HK$0.775) each	174,375	174,375

26. Share Capital (continued)

Shares (continued)

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

	Number of shares in issue	Share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 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 and 1 January 2016	225,000,000	174,375	170,552	344,927
Final 2015 dividend	–	–	(19,936)	(19,936)
At 31 December 2016	225,000,000	174,375	150,616	324,991

(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 each share of the Company with par value of US$1.00 into 10 shares with par value of 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.

(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

(a) Share option scheme

The Company operates a share option scheme (the "Option Scheme") for the purpose to recognise and acknowledge the contributions that the eligible participants of the Option Scheme had or may have made to the Company. Eligible participants of the Option Scheme include any full-time or part-time employees, executives or officers of the Company and its subsidiaries, directors (including independent non-executive directors) of the Company and its subsidiaries and advisers, consultants, 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.

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.

27. Share Option Scheme (continued)

(b) Shares held for the share award scheme

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

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

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

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

The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administrating the Share Award Scheme. The Share Award Scheme Trust will acquire the Company's shares from the Stock Exchange, with a maximum number determined by the Board, and hold the shares granted to the employees but not vested for the employees until they are vested. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

The Board has further resolved in February 2016 that a sum of HK$10,000,000 has provided for the purchase of the Company's shares to be awarded to the Eligible Award Participants to be selected by the Board. During the year ended 31 December 2016, the Company purchased a total of 3,021,000 shares of the Company through the Stock Exchange of an aggregated consideration of approximately HK$10,019,000.

As at 31 December 2016, the Share Award Scheme Trust holds 3,021,000 (2015: Nil) shares of the Company. No expenses or reserves were recognised for the Share Award Scheme as no share of the Company were granted to the employees during the year ended 31 December 2016.

During the year ended 31 December 2016, the Share Award Scheme Trust received cash dividend of HK$67,000 which will be used to pay for the fees of the trust or acquire the Company's own ordinary shares.

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.

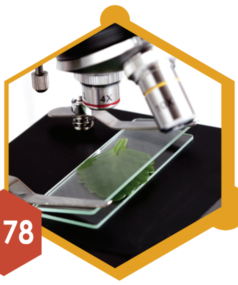
29. Operating Lease Arrangements

As lessee

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

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	17,849	12,158
In the second to fifth years, inclusive	20,496	10,057
	38,345	22,215



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:

	2016 HK$'000	2015 HK$'000
Contracted, but not provided for:		
Acquisition of subsidiaries*	217,512	–
Land and buildings	48,582	48,582
Plant and machinery	8,866	3,257
Intangible assets	–	709
	274,960	52,548

* At the end of the reporting period, the Group had contracted for capital commitments in respect of the acquisition of Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd (the "Target PRC Companies") amounting to RMB190,000,000 (equivalent to approximately HK$217,512,000). Futher detail are disclosed in note 36.

31. Related Party Transactions

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

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

Name of related parties	Relationship
Mr. Chan Yu Ling, Abraham ("Mr. Abraham Chan")	Director of the Company
Mr. Chan Kin Man, Eddie ("Mr. Eddie Chan")	Non-executive director of the Company
Joint Partners Investments Limited	Company controlled by directors
HerbMiners Informatics Limited ("HerbMiners")	Company controlled 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

31. Related Party Transactions (continued)

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

		2016 HK$'000	2015 HK$'000
Rental expenses	(i)	–	720
Software license fee and IT service fee	(ii)	781	1,098
Acquisition of intangible assets	(iii)	8,561	–
Purchase of raw materials	(iv)	9,338	3,950
Professional service fees	(v)	622	997
		19,302	6,765

Notes:

(i) The rental expenses were paid to Golden Gain International Limited, a related company controlled by Mr. Abraham Chan, and Ms. Man Yee Wai, Viola under a price mutually agreed by both parties. Such lease arrangement was terminated on 30 June 2015.

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

(iii) The acquisition of intangible assets representing the transfer of the titles, interests and rights of the two types of Chinese medicine management software developed by HerbMiners to the Group. The consideration for the acquisition was determined after arm's length negotiation with reference to the appraised value determined by an independent third party valuer.

(iv) 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.

(v) The professional service fees were paid to the related companies, in which Mr. Eddie Chan, the non-executive director of the Company, has significant influence, under prices mutually agreed by both parties.

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

31. Related Party Transactions (continued)

(c) Outstanding balances with related parties:

	2016		2015	
		Maximum amount outstanding		Maximum amount outstanding
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables				
Gold Sparkle (Guizhou) DZ Plantation Co., Ltd *	147	147	840	840

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

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

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	11,656	9,153
Pension scheme contributions	60	54
	11,716	9,207

32. 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:

2016

Financial assets

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

Financial liabilities

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

32. 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)

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

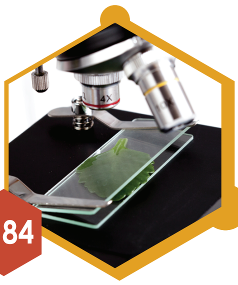
Financial liabilities

	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. Transfers of Financial Assets

At 31 December 2015, PuraPharm Nanning 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. At 31 December 2016, no Derecognised Bills has been endorsed to certain of its suppliers to settle the trade payables. The Derecognised Bills had a remaining maturity of approximately two months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the reporting period, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the years or cumulatively.



34. 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	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Financial assets				
Available-for-sale investments	13,760	13,348	13,760	13,348
Trade and bills receivables	231,689	161,018	231,689	161,018
Financial assets included in prepayments deposits and other receivables	21,564	12,171	21,564	12,171
Pledged bank deposits	11,000	6,000	11,000	6,000
Cash and cash equivalents	209,129	232,243	209,129	232,243
	487,142	424,780	487,142	424,780
Financial liabilities				
Trade payables	74,191	38,091	74,191	38,091
Financial liabilities included in other payables and accruals	39,875	29,857	39,875	29,857
Interest-bearing bank borrowings	261,048	125,431	261,048	125,431
	375,114	193,379	375,114	193,379

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 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.

35. Financial Risk Management Objectives and Policies

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

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

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

	Increase/(decrease) in the Group's profit before tax	
	2016 HK$'000	2015 HK$'000
If decrease by 100 basis points	1,973	644
If increase by 100 basis points	(1,973)	(644)

35. 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 2016 and 2015 to a reasonably possible change by 5% in the HK$ exchange rate against RMB and Japanese Yen ("JPY"), with all other variables held constant, of the Group's profit before tax due to changes in the fair values of monetary assets and liabilities.

	2016 HK$'000	2015 HK$'000
If RMB weakens against HK$ by 5% Decrease in profit before tax	(1,157)	(1,586)
If RMB strengthens against HK$ by 5% Increase in profit before tax	1,157	1,586
If JPY weakens against HK$ by 5% Decrease in profit before tax	(725)	–
If JPY strengthens against HK$ by 5% Increase in profit before tax	725	–

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.

35. 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:

	2016			
	On demand HK$'000	Less than 3 months HK$'000	3 to12 months HK$'000	Total HK$'000
Interest-bearing bank borrowings (note)	261,048	–	–	261,048
Trade payables	–	71,106	3,085	74,191
Other payables	–	39,875	–	39,875
	261,048	110,981	3,085	375,114

	2015			
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Interest-bearing bank borrowings (note)	125,211	220	–	125,431
Trade payables	–	34,879	3,212	38,091
Other payables	–	29,857	–	29,857
	125,211	64,956	3,212	193,379

Note: As at 31 December 2016, interest-bearing bank borrowings in the amount of HK$261,048,000 (2015: HK$125,211,000) 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".

35. Financial Risk Management Objectives and Policies (continued)

Note: (continued)

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the end of the reporting period, the Group's compliance with the loan covenants, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the contractual undiscounted payments as at 31 December 2016 and 2015 are as follows:

Year ended 31 December	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
2016	170,788	89,796	4,553	265,137
2015	37,499	89,215	2,624	129,338

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.

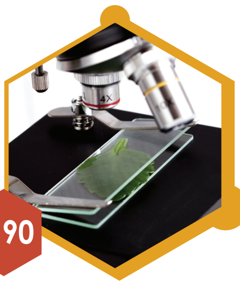
The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders 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 2016.

35. Financial Risk Management Objectives and Policies (continued)

Capital management (continued)

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

	2016 HK$'000	2015 HK$'000
Interest-bearing bank borrowings	261,048	125,431
Trade and payables	74,191	38,091
Other payables and accruals	58,341	56,468
Less: Cash and cash equivalents	(209,129)	(232,243)
Net debt	184,451	(12,253)
Equity attribute to owners of the parent	454,505	469,710
Net debt and equity attribute to owners of the parent	638,956	457,457
Net gearing ratio	29%	N/A



36. Events After the Reporting Period

1. Acquisition of Target PRC Companies

On 9 November 2016, the Group entered into a share purchase agreement with Gold Sparkle Plantation Company Limited, which was ultimately owned as to 60% by Gold Sparkle Limited ("Gold Sparkle") and 40% by Golden Zenith Limited ("Golden Zenith"), in relation to the Group's acquisition of the Target PRC Companies at a total consideration of RMB190,000,000 (equivalent to approximately HK$217,512,000), payable by cash and the issue of 22,717,920 shares by the Company to Gold Sparkle and Golden Zenith at the issue price of HK$4.50 per share. The acquisition of the Target PRC Companies was approved by the shareholders of the Company on 17 January 2017 and yet to complete as at the date of these financial statements. Details of the acquisition of the Target PRC Companies have been set out in the Company's circular dated 30 December 2016 and announcements dated 9 November 2016 and 17 February 2017, respectively.

2. Acquisition of K'AN Herb Company (the "Target US Company")

On 3 March 2017, the Group entered into share purchase agreements with all the shareholders of the Target US Company in relation to the Company's acquisition of issued and outstanding share capital in the Target US Company at a total cash considerations of US$5,400,000 (equivalent to approximately HK$41,850,000). Details of the acquisition of the Target US Company have been set out in the Company's announcement dated 3 March 2017.

The acquisition of the Target US Company was completed on 7 March 2017. Due to the timing of the transaction, the Group is still assessing the allocation of fair values of the assets acquired and liabilities assumed. The books and records of the Target US Company is under the assessment stage, and therefore the initial accounting for the business combination is under progress. Accordingly, certain disclosures in relation to the business combination as at the date of the acquisition, such as fair values of the assets acquired and liabilities assumed, goodwill recognised (if any) and acquisition-related costs, have not been presented in these financial statements.

37. 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:

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	–	–
Total non-current assets	–	–
CURRENT ASSETS		
Prepayments, deposits and other receivables	322,011	267,537
Cash and cash equivalents	10,352	50,159
Total current assets	332,363	317,696
CURRENT LIABILITIES		
Other payables and accruals	1,602	1,460
NET CURRENT ASSETS	330,761	316,236
TOTAL ASSETS LESS CURRENT LIABILITIES	330,761	316,236
EQUITY (note)		
Share capital	174,375	174,375
Shares held for share award scheme	(10,019)	–
Reserves	166,405	141,861
Total equity	330,761	316,236

37. Statement of Financial Position of the Company (continued)

Note:

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

Year ended 31 December	Share capital HK$'000	Share premium HK$'000	Shares held for share award scheme HK$'000	Retained Profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2015	30,000	–	–	(9,239)	20,761
Issue of shares	144,375	170,552	–	–	314,927
Loss for the year	–	–	–	(19,452)	(19,452)
At 31 December 2015 and at 1 January 2016	174,375	170,552	–	(28,691)	316,236
Profit for the year	–	–	–	44,480	44,480
Purchase of shares held for share award scheme (note 27)	–	–	(10,019)	–	(10,019)
Dividend distribution	–	(19,936)	–	–	(19,936)
At 31 December 2016	174,375	150,616*	(10,019)	15,789*	330,761

* These reserve accounts comprise the reserves of HK$166,405,000 (2015: HK$141,861,000) in the statement of financial position of the Company.

38. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2017.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
RESULTS					
REVENUE	535,986	473,900	366,352	342,303	287,811
Cost of sales	(187,182)	(168,168)	(134,241)	(123,086)	(103,210)
Gross profit	348,804	305,732	232,111	219,217	184,601
Other income and gains	10,796	8,212	5,794	7,956	13,996
Selling and distribution expenses	(154,380)	(140,214)	(99,176)	(101,940)	(78,166)
Administrative expenses	(154,001)	(119,376)	(81,028)	(79,711)	(54,628)
Other expenses	(3,221)	(3,977)	(2,307)	(2,683)	(4,791)
Finance costs	(9,331)	(10,243)	(13,064)	(13,149)	(10,959)
PROFIT BEFORE TAX	38,667	40,134	42,330	29,690	50,053
Tax	(6,505)	(11,676)	(7,823)	(3,399)	(5,911)
PROFIT FOR THE YEAR	32,162	28,458	34,507	26,291	44,142
Attributable to:					
Owners of the parent	32,162	28,458	34,463	26,264	44,094
Non-controlling interests	–	–	44	27	48
	32,162	28,458	34,507	26,291	44,142

Assets, Liabilities and Non-Controlling Interests

	As at 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
TOTAL ASSETS	860,248	697,332	420,310	348,111	333,502
TOTAL LIABILITIES	(405,743)	(227,622)	(284,497)	(274,999)	(289,475)
NON-CONTROLLING INTERESTS	–	–	(124)	(80)	(53)
	454,505	469,710	135,689	73,032	43,974

Note:

The historical financial information of the Group for the years ended 31 December 2014, 2013 and 2012 was extracted from the Prospectus.

PuraPharm

Chinese Medicine Modernized

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