PuraPharm®

PURAPHARM CORPORATION LIMITED
培力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1498)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHT

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

The board (the "**Board**") of directors (the "**Directors**") of PuraPharm Corporation Limited (the "**Company**") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**") as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2017** **HK$'000**	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**297,059**	117,383
Prepaid land lease payments		**47,854**	23,070
Intangible assets		**35,175**	26,470
Available-for-sale investments		**22,110**	13,760
Biological Assets		**18,903**	–
Prepayments for non-current assets		**8,693**	8,845
Deferred tax assets		**16,313**	12,200
Goodwill	*12*	**155,685**	–
Total non-current assets		**601,792**	201,728
CURRENT ASSETS			
Inventories		**282,479**	167,064
Biological assets		**18,244**	–
Trade and bills receivables	*9*	**242,603**	231,689
Prepayments, deposits and other receivables		**53,054**	39,638
Pledged bank deposits		**9,000**	11,000
Cash and cash equivalents		**86,805**	209,129
Total current assets		**692,185**	658,520
CURRENT LIABILITIES			
Trade and bills payables	*10*	**112,195**	74,191
Other payables and accruals		**69,831**	58,341
Interest-bearing bank and other borrowings	*13*	**493,744**	261,048
Tax payable		**5,050**	7,227
Government grants		**3,274**	1,953
Total current liabilities		**684,094**	402,760
NET CURRENT ASSETS		**8,091**	255,760
TOTAL ASSETS LESS CURRENT LIABILITIES		**609,883**	457,488

	Notes	**2017**	2016
		HK$'000	*HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**609,883**	457,488
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*13*	**54,277**	-
Government grants		**3,731**	1,399
Deferred tax liabilities		**2,793**	1,584
Total non-current liabilities		**60,801**	2,983
Net assets		**549,082**	454,505
EQUITY			
Equity attributable to owners of the parent			
Share capital		**191,981**	174,375
Shares held for share award scheme		**(10,019)**	(10,019)
Reserves		**367,120**	290,149
Total equity		**549,082**	454,505

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND REORGANISATION

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. After the acquisition of the plantation businesses in April 2017, the Group's activities also include plantation and trading of raw Chinese herbs, and manufacturing and sale of Traditional Chinese Medicine ("**TCM**") decoction pieces ("中藥飲片").

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

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flow and non-cash changes.

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

3.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements to HKFRSs 2014–2016 Cycle	*Amendments to the following two HKFRSs:* *— HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards*[1] *— HKAS 28 Investments in Associates and Joint Ventures1*
Annual Improvements to HKFRSs 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[2]

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

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

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

(a) Classification and measurement

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

(b) Impairment

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

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

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

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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 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.

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

31 December 2017

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

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
Write-down of inventories to net realisable value	832	776	–	–	–	1,608
Impairment of trade and bills receivables	1,857	–	1,851	–	–	3,708

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customer

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

* The amount represented government grants from the relevant authorities in the PRC, which consisted primarily of subsidies and compensation for 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):

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

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

** The net foreign exchange gain was included in "Other income" in the consolidated statement of profit or loss for the year ended 31 December 2017. The net foreign exchange loss was included in "Other expenses" in the consolidated statement of profit or loss for the year ended 31 December 2016.

*** The write-down of inventories to net realisable value was included in the "Cost of sales" in the consolidated statement of profit or loss for the years ended 31 December 2017 and 2016.

7. INCOME TAX

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

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

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

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

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

(a) Basic

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

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

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

	2017	2016
Number of issued shares on 1 January	**225,000,000**	225,000,000
Adjustment for shares held for share award scheme	**(3,021,000)**	(1,555,429)
Effect of issue of shares on 19 April 2017	**15,995,905**	–
Weighted average number of ordinary shares	**237,974,905**	223,444,571

(b) Diluted

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

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

9. TRADE AND BILLS RECEIVABLES

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

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to six months, extending up to longer periods for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. As at 31 December 2017, the Group had certain concentrations of credit risk as 17% of the Group's trade and bills receivables were due from a company in which, Mr. He Ding Xiang ("Mr. He), a director of the Plantation Subsidiaries held 25% of equity interests, and companies controlled by Mr. He. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

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

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

10. TRADE AND BILLS PAYABLES

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

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

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

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

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

11. DIVIDENDS

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

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

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

12. GOODWILL

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

Impairment testing of goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

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

Interest-bearing bank and other borrowings are denominated in:

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

(a) HK Interpretation 5 "Presentation of Financial Statements — classification by the borrower of a term loan that contains a repayment on demand clause" requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time ("repayment on demand clause") shall be classified in total by the borrower as current in the consolidated statement of financial position. Interest-bearing bank loans of the Group in the amount of HK$278,065,000 (2016: HK$261,048,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$4,875,000 (2016: HK$4,481,000) that is repayable after one year from the end of 2017 has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.

(b) As at 31 December 2017, the Group's bank loans amounting to approximately HK$195,888,000 (2016:HK$24,518,000) were not in compliance with certain financial loan covenants, therefore, the respective balances of bank loans amounting to HK$75,315,000 (2016:nil) is reclassified from non-current liabilities to current liabilities. The Group had obtain waivers for the non-compliance loans of HK$153,386,000 and no demand for immediate repayment was made in respect of the relevant cash loans.

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

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

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

PROSPECTS

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCE REVIEW

Sales performance

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

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

China CCMG

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

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

HK CCMG

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

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

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

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

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

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

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

Chinese healthcare products

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

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

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

Plantation

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

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

Profitability

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

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

Other income and gains

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

Selling and distribution expenses

The Group's selling and distribution expenses mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses, and sales and marketing departmental expenses. For the year ended 31 December 2017, the Group's selling and distribution expenses was HK$191.8 million, representing an increase of HK$37.4 million or 24.2% compared to HK$154.4 million in last year. The increase was mainly attributable to (i) increased marketing resources to focus on the direct sales customers in the China; and (ii) increased advertising and promotional activities to strengthen the promotion of the Group's products and brands in China.

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

Administrative expenses

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

Other expenses

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

Finance costs

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

Income tax expense

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

Liquidity and Financial Resources

Cash position and interest-bearing bank and other borrowings

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

Cash flow and liquidity ratio analysis

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

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

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

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

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

In order to improve the net current ratio and gearing ratio, the Group will consider to leverage on the equity financing by introducing strategy investors to strengthen the equity base if necessary. The Group will also strengthen the working capital management by closely monitoring the collection of trade and bills receivables, and inventory level to increase the operating cash flow to lower the bank borrowing level.

Pledge of Assets

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

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

Capital Commitment

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

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

Contingent Liabilities

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

Exchange Risk

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

Human Resources

As at 31 December 2017, the Group had a total of 681 employees (31 December 2016: 544 employees). During the year ended 31 December 2017, total staff costs excluding Directors' remuneration was HK$120.0 million (31 December 2016: HK$113.8 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK$288.4 million. As at 31 December 2017, the Group had utilised approximately HK$244.2 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	**Approximate amount of net proceeds** *(in HK$ million)*	**Approximate percentage of net proceeds**	**Approximate amount utilized** *(in HK$ million)*
To expand manufacturing facilities and enhance existing production lines	86.5	30.0%	66.6
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25.0%	72.1
To expand distribution network into new target cities in the PRC	57.7	20.0%	57.7
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15.0%	19.0
Additional working capital of the Group	28.8	10.0%	28.8
	288.4	100.0%	244.2

CORPORATE GOVERNANCE

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 Listing Rules. Throughout the year ended 31 December 2017, save as disclosed below, the Company has been in compliance with all applicable code provision set out in the Code.

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

AUDIT COMMITTEE

The Company established an audit committee on 12 June 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Code. As of 31 December 2017, the audit committee consists of three independent non-executive Directors, namely Mr. Ho Kwok Wah, George (being the chairman of the audit committee who has a professional qualification in accountancy), Dr. Leung Lim Kin, Simon and Dr. Chan Kin Keung, Eugene. On 15 November 2017, Mr Chan Kin Man, Eddie resigned as member of audit committee and Dr. Chan Kin Keung, Eugene was appointed as member of audit committee as Mr. Chan Kin Man, Eddie was re-designated as an executive Director. The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board. The audit committee discussed the accounting principles and policies adopted by the Group together with the management and the external auditors; and reviewed the consolidated results of the Group for the year ended 31 December 2017.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's results for the year ended 31 December 2017 as set out in this preliminary announcement have been agreed by the Group's independent auditors, Ernst & Young, Certified Public Accountants of Hong Kong ("**Ernst & Young**") to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Ernst & Young on this preliminary announcement of results.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as 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 year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

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

DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 25 May 2018 and the notice of AGM will be published and despatched in the manner as required by the Listing rules in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the shareholders eligibility to attend the AGM, the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, during which no transfer of shares will be registered. Only shareholders of the Company whose names appear on the register of members of the Company on 25 May 2018 or their proxies or duly authorised corporate representatives are entitled to attend the AGM. In order to qualify for attending and voting at the AGM, all properly completed transfer documents accompanied with relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 pm on 18 May 2018.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com. The annual report of the Company for the year ended 31 December 2017 will also be published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.purapharm.com and will be dispatched to the shareholders of the Company in due course.

FORWARD LOOKING STATEMENTS

This announcement contains certain forward looking statements with respect to the financial condition, result of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

By Order of the Board
PuraPharm Corporation Limited
Chan Yu Ling, Abraham
Chairman

Hong Kong, 26 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Chan Yu Ling, Abraham, Dr. Tsoi Kam Biu, Alvin, Mr. Chan Kin Man, Eddie, Mr. Chan Lung Sang and Ms. Man Yee Wai, Viola; and the independent non-executive directors of the Company are Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee.