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 2018

FINANCIAL HIGHLIGHT

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

The 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 2018 (the "**Reporting Period**") as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**294,676**	297,059
Prepaid land lease payments		**45,622**	47,854
Intangible assets		**36,190**	35,175
Financial assets at fair value through profit or loss		**10,741**	–
Available-for-sale investment		**–**	22,110
Biological assets		**28,386**	18,903
Prepayments for non-current assets		**13,196**	8,693
Deferred tax assets		**16,383**	16,313
Goodwill	*12*	**155,685**	155,685
Total non-current assets		**600,879**	601,792
CURRENT ASSETS			
Inventories		**214,033**	282,479
Biological assets		**45,461**	18,244
Trade and bills receivables	*9*	**290,657**	242,603
Prepayments, other receivables and other assets		**66,402**	53,054
Tax recoverable		**1,787**	–
Pledged bank deposits		**9,000**	9,000
Cash and cash equivalents		**104,884**	86,805
Total current assets		**732,224**	692,185
CURRENT LIABILITIES			
Trade and bills payables	*10*	**139,201**	112,195
Other payables and accruals		**71,426**	69,831
Interest-bearing bank and other borrowings	*13*	**354,028**	493,744
Loans from a director		**30,000**	–
Tax payable		**3,712**	5,050
Government grants		**2,358**	3,274
Total current liabilities		**600,725**	684,094
NET CURRENT ASSETS		**131,499**	8,091
TOTAL ASSETS LESS CURRENT LIABILITIES		**732,378**	609,883

	Notes	**2018** *HK$'000*	2017 *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*13*	**164,449**	54,277
Government grants		**3,194**	3,731
Deferred tax liabilities		**2,516**	2,793
Total non-current liabilities		**170,159**	60,801
Net assets		**562,219**	549,082
EQUITY			
Equity attributable to owners of the parent			
Share capital		**191,981**	191,981
Shares held for share award scheme		**(8,200)**	(10,019)
Reserves		**378,438**	367,120
Total equity		**562,219**	549,082

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the year, the Company and its subsidiaries (the "**Group**") have been principally engaged in the research and development, production and sale of concentrated Chinese medicine granule ("**CCMG**") products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and manufacture and sale of Traditional Chinese Medicine ("**TCM**") decoction pieces ("中藥飲片"), as well as rendering of Chinese medical diagnostic services.

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

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 financial assets at fair value through profit or loss, available-for-sale investments, and biological assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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 new and revised HKFRSs for the first time for the current year's financial statements.

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

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

HKFRS 15

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

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

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

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

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

(i) Sale of goods with variable consideration

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

Rights of return

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

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

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

(ii) Consideration received from customers in advance

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

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

HKFRS 9

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

Classification and measurement

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

A reconciliation between the carrying amounts under HKAS 39 and the balance reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					**HKFRS 9 measurement**	
	Note	**Category**	**Amount** *HK$'000*	**Re-classification** *HK$'000*	**ECL** *HK$'000*	**Other** *HK$'000*	**Amount** *HK$'000*	**Category**
Financial assets								
Available-for-sale investments		AFS[1]	21,110	(21,110)	–	–	–	N/A
To: Financial assets at fair value through profit or loss	*(i)*			(21,110)	–	–		
Financial assets at fair value through profit or loss		N/A	–	21,110	–	–	21,110	FVPL[2] (mandatory)
From: Available-for-sale investments	*(i)*			21,110	–	–		
Trade and bills receivables		L&R[3]	242,603	–	–	–	242,603	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	26,948	–	–	–	26,948	AC
Pledged bank deposits		L&R	9,000	–	–	–	9,000	AC
Cash and cash equivalents		L&R	86,805	–	–	–	86,805	AC
			387,466	–	–	–	387,466	
Total assets			1,293,977	–	–	–	1,293,977	
Financial liabilities								
Trade and bills payables		AC	112,195	–	–	–	112,195	AC
Financial liabilities included in other payables and accruals		AC	52,726	–	–	–	52,726	AC
Interest-bearing bank and other borrowings		AC	548,021	–	–	–	548,021	AC
			712,942	–	–	–	712,942	
Total liabilities			744,895	–	–	–	744,895	

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

Note:

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

Impact on reserves and retained profits

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

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

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets and lease liabilities of HK$49,476,000 will be recognised at 1 January 2019.

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, U.S. and Japan;

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

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

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

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

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

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

31 December 2018

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

31 December 2017

	China CCMG *HK$'000* (Restated)	Hong Kong CCMG *HK$'000*	Chinese healthcare products *HK$'000*	Clinics *HK$'000*	Plantation *HK$'000* (Restated)	Elimination *HK$'000*	Total *HK$'000* (Restated)
Segment revenue:							
Revenue to external customers	221,526	180,987	85,120	77,565	26,368	–	591,566
Intersegment sales	126,860	15,234	2,439	–	13,121	(157,654)	–
	348,386	196,221	87,559	77,565	39,489	(157,654)	591,566
Segment results	24,822	45,095	6,225	(6,975)	11,973	–	81,140
Reconciliations:							
Interest income							450
Foreign exchange gain, net							9,138
Equity-settled share award scheme							(2,226)
Finance costs							(16,867)
Corporate and other unallocated expenses							(61,304)
Profit before tax							10,331
Income tax expense							(8,442)
Net profit							1,889
Other segment information:							
Depreciation and amortisation	14,106	2,379	2,958	6,359	1,663	–	27,465
Write-down of inventories to net realisable value	2,477	739	–	–	–	–	3,216
Impairment of trade and bills receivables	6,842	–	–	–	–	–	6,842

Geographical information

(a) *Revenue from external customers*

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

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

(b) *Non-current assets*

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

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

Information about major customer

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

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

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

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

For the year ended 31 December 2018

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

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

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

(ii) ***Performance obligations***

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

Sale of goods

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

Rendering of services

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

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

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

6. PROFIT BEFORE TAX

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

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

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

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

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

*** The write-down of inventories to net realisable value was included in the "Cost of sales" in the consolidated statement of profit or loss for the years ended 31 December 2018 and 2017.

7. 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% (2017: 16.5%), 24% (2017: 40%) and 23.2% (2017: 40%) on the estimated assessable profits arising in Hong Kong, U.S. and Japan during the years ended 31 December 2018 and 2017. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, PuraPharm (Nanning) Pharmaceuticals Co., Limited ("**PuraPharm Nanning**"), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15%.

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

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

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

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

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year ended 31 December 2018 excluding ordinary shares purchased by the Group and held for Award Scheme.

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

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

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

(b) Diluted

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

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

9. TRADE AND BILLS RECEIVABLES

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

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to six months, extending up to longer periods for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. As at 31 December 2018, the Group had certain concentrations of credit risk as 7% (2017: 17%) of the Group's trade and bills receivables were due from a company in which significantly influenced by Mr. He Ding Xiang ("**Mr. He**") (2017: companies controlled by Mr. He), a director of the Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at 31 December 2018 and 2017, based on the invoice date and net of loss allowance, is as follows:

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

10. TRADE AND BILLS PAYABLES

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

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

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

Included in the trade and bills payables was an amount due to a company significantly influenced by Mr. He (2017: companies controlled by Mr. He) of HK$3,840,000 (2017: HK$16,606,000) as at 31 December 2018.

11. DIVIDENDS

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

12. GOODWILL

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

Impairment testing of goodwill

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

- Plantation CGU;
- Chinese herbal products CGU; and
- SODX CGU

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

	31 December 2018 *HK$'000*	31 December 2017 *HK$'000*
Plantation CGU	**134,692**	134,692
Chinese herbal products CGU	**13,705**	13,705
SODX CGU	**7,288**	7,288
	155,685	155,685

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

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

	31 December 2018	
	Growth rate	**Pre-tax discount rate**
Plantation CGU	**2.7%**	**15.0%**
Chinese herbal products CGU	**2.0%**	**21.1%**
SODX CGU	**1.1%**	**12.0%**

Assumptions were used in the value in use calculation of each CGU as at 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

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

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

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

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

Interest-bearing bank and other borrowings are denominated in:

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

(a) HK Interpretation 5 "Presentation of Financial Statements — classification by the borrower of a term loan that contains a repayment on demand clause" requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time ("repayment on demand clause") shall be classified in total by the borrower as current in the consolidated statement of financial position. Interest-bearing bank loans of the Group in the amount of HK$206,025,000 (2017: HK$278,065,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$53,154,000 (2017: HK$4,875,000) that is repayable after one year from the end of 2017 has been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.

(b) As at 31 December 2018, the Group's bank loans amounting to approximately HK$54,715,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since they all included the repayment on demand clause and have already been classified as current liabilities. The Group had obtain waivers for the non-compliance loans of HK$36,478,000 and no demand for immediate repayment was made of the relevant cash loans on 11 March 2019.

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

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

In 2017, we have revamped our sales strategy for Concentrated Chinese Medicine Granules ("CCMG") business in China, and such move has led to a temporary decline in sales growth and profitability in 2017. In 2018, our revamped sales strategy was proven to be successful as we regained the sales momentum for China CCMG business, demonstrated by a revenue growth HK$103.1 million or 46.5%.

The China market of the CCMG business continues to be challenging with keen price competition. We will continue our sales strategy by focusing on a few selected regions in China and at the same time strengthening the support to our distributors and hospitals.

To fuel the future growth and to perfect our supply chain, we have completed three strategic acquisitions in Guizhou, U.S. and Japan, respectively, in 2017. The newly acquired businesses all performed well and contributed a stable revenue and profit to the Group. We will continue to integrate and synergize these newly acquired businesses into the Group to foster new growth.

Clinic segment is an important growth driver for the Group. The number of Nong's® (農本方®) Chinese medicine clinics operated by the Group increased from 7 clinics as at 31 December 2014 to 62 clinics as at 31 December 2018, and annual revenue contribution from clinic segment increased from HK$5.8 million in 2014 to HK$95.9 million in 2018, representing a compound annual growth rate of 101.6% over the last four years. In 2018, the Group optimised its clinic network in Hong Kong and enhance its profitability by disposing those under-performing clinics and replace them by new clinics in a more promising location with higher potential. By optimising the clinic network, the number of clinics under operation was decreased during the year, but Group continued to be the market leader in CCMG product as well as the largest Chinese medicine clinic chain in Hong Kong. In 2019, the Group will further optimise the clinic network and revamp the clinic business model in Hong Kong, aiming to enhance the profitability of the clinic segment.

The Group first PRC clinic was located in Nanning, Guangxi Zhuang Autonomous Region. It is the first Hong Kong-funded medical institution obtained approval to operate in Guangxi under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). Following the first CEPA clinic in Nanning, the Group's second CEPA clinic was located in Shanghai and started the trial operation in late 2018.

In view of the PRC policies on traditional Chinese medicine to encourage enterprises and Chinese medicine practitioners to setup private clinics in China, we believed that the favorable policies will complement the Group clinics expansion plan in China. The Group will continue to capitalise on its extensive operational experience in clinic management and its unique modernized model in providing Chinese medicine diagnosis and treatment services. We will also leverage on our knowhow in utilizing healthcare and medical big data to deliver the best diagnosis and the most effective treatment services to local residents.

FINANCIAL REVIEW

Sales performance by segment

	2018		2017		
	HK$'000	*% of total*	*HK$'000*	*% of total*	*Change*
China CCMG	**324,611**	**43.5%**	221,526	37.4%	46.5%
Hong Kong CCMG	**171,772**	**23.0%**	180,987	30.6%	(5.1%)
Chinese Healthcare products	**99,024**	**13.3%**	85,120	14.4%	16.3%
Nong's® (農本方®)					
Chinese medicine clinic	**95,870**	**12.9%**	77,565	13.1%	23.6%
Plantation	**54,226**	**7.3%**	26,368	4.5%	105.7%
	745,503	**100%**	591,566	100%	26.0%

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

China CCMG

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

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

HK CCMG

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

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

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

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

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

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

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

Chinese healthcare products

Sales by regions

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

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

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

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

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

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

Plantation

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

Profitability

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

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

Other income and gains

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

Selling and distribution expenses

The Group's selling and distribution expenses were mainly comprised of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses, and sales and marketing departmental expenses. For the year ended 31 December 2018, the Group's selling and distribution expenses was HK$230.0 million, representing an increase of HK$38.2 million or 19.9% compared to HK$191.8 million in last year. The increase was mainly attributable to (i) continued allocation of more marketing resources to support both the direct sales customers and distributors to expand the Group's CCMG business in China market; and (ii) increased advertising and promotional activities to strengthen the promotion of the Group's products and brands in China.

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

Administrative expenses

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

The Group's administrative expenses included both operating expenses for clinics and general administrative expenses. The expenses were mainly comprised of staff costs, research and development costs, office and clinics rental expenses, legal and professional fees, clinic management fee, depreciation and amortisation, and other general administrative expenses.

For the year ended 31 December 2018, the Group's administrative expenses was HK$217.0 million, representing an increase of HK$10.0 million or 4.9% compared to HK$207.0 million in last year. The increase was mainly attributable to (i) increase in clinic management fee, rental expenses and relevant clinic operating expenses in relation to the Group's Nong's® (農本方®) Chinese medicine clinics in Hong Kong, (ii) increase in clinic operating expenses in China, including the pre-operation expenses for the clinic in Shanghai, (iii) administrative expenses attributed to the 2017 newly acquired subsidiaries in Guizhou, U.S. and Japan of HK$28.9 million in total, and (iv) HK$8.1 million one-off expenses for organisation restructuring project.

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

Other expenses

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

Finance costs

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

Income tax expense

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

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

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

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

Profit for the year

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

Liquidity and Financial Resources

Cash position and interest-bearing bank and other borrowings

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

Cash flow and liquidity ratio analysis

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

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

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

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

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

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

Pledge of Assets

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

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

Capital Commitment

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

Contingent Liabilities

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

Exchange Risk

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

Human Resources

As at 31 December 2018, the Group had a total of 641 employees (31 December 2017: 681 employees). During the year ended 31 December 2018, total staff costs excluding Directors' remuneration was HK$108.9 million (31 December 2017: HK$120.0 million). The Group offers competitive remuneration packages to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus, share options and share awards may be granted to eligible employees based on the Groups and individuals performance. The Group also allocated resources for continuing education and training for management and employees to improve their skills and knowledge.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK$288.4 million. As at 31 December 2018, the Group had utilised approximately HK$269.6 million of the net proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	**Approximate amount of net proceeds** *(in HK$ million)*	**Approximate percentage of net proceeds**	**Approximate amount utilized** *(in HK$ million)*	**Approximate amount unutilized** *(in HK$ million)*
To expand manufacturing facilities and enhance existing production lines	86.5	30.0%	86.5	–
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%	24.5	18.8
Additional working capital of the Group	28.8	10.0%	28.8	–
	288.4	100.0%	269.6	18.8

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 2018, 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 2018, 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. 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 2018.

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 2018 as set out in this preliminary announcement have been agreed with the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2018.

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 2018.

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 2018.

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

The Board is not aware of any significant event affecting the Company nor any of its subsidiaries after the end of the reporting period and up to the date of this announcement requiring disclosure.

DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 December 2018.

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 15 May 2019 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 Wednesday, 8 May 2019 to Wednesday, 15 May 2019, 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 15 May 2019 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 7 May 2019.

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 2018 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, 27 March 2019

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, and Ms. Man Yee Wai, Viola; the non-executive director of the Company is Mr. Chow, Stanley; 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.