PuraPharm®

2020 ANNUAL REPORT
年度報告

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

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ANNUAL REPORT 2020

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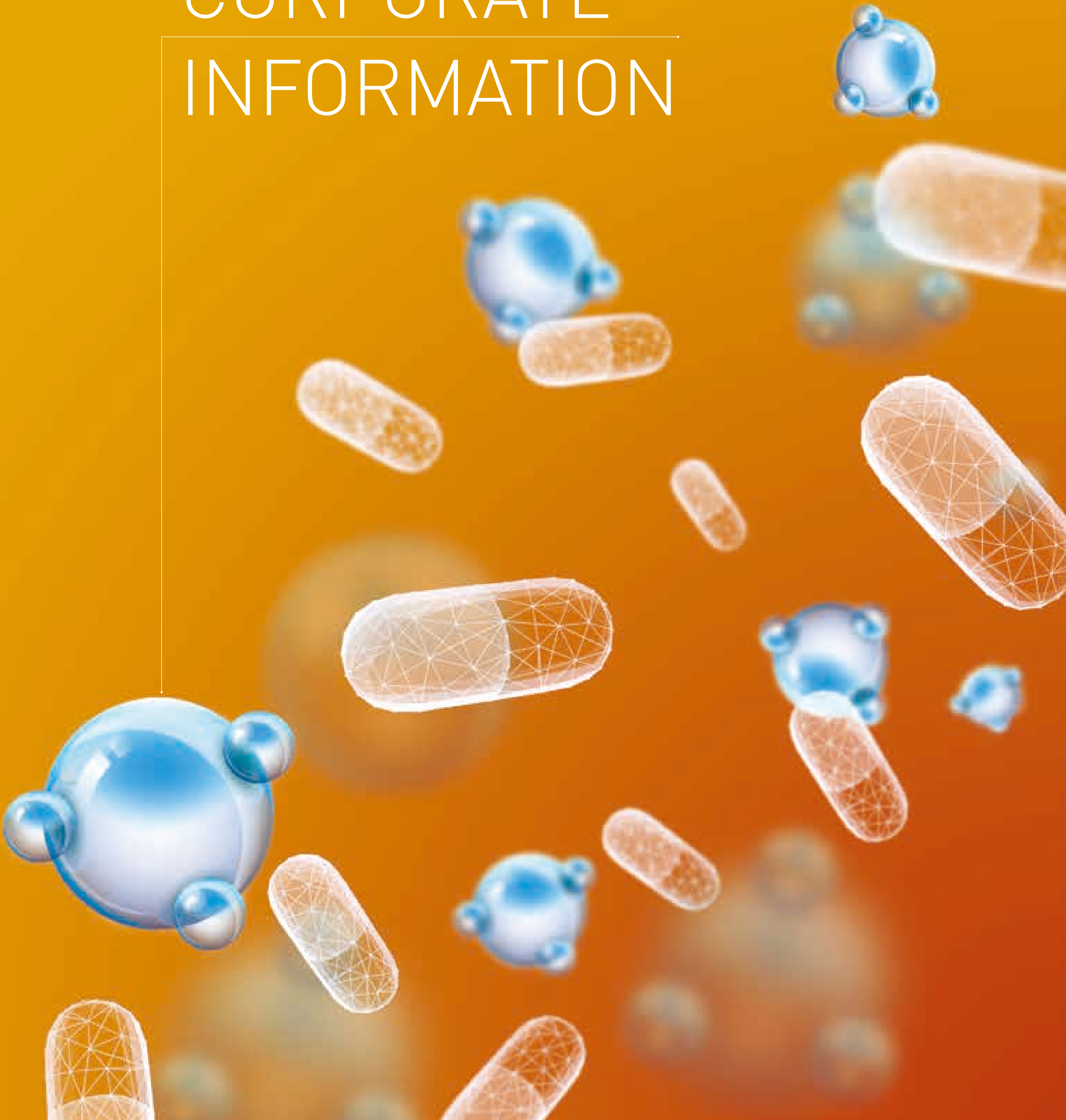
CORPORATE INFORMATION



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chan Yu Ling, Abraham *(Chairman)*
Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)*
Ms. Man Yee Wai, Viola
Mr. Cheong Shin Keong (appointed as Non-Executive Director on 24 March 2020 and re-designated as Executive Director on 1 September 2020)
Dr. Norimoto Hisayoshi (appointed on 17 November 2020)

NON-EXECUTIVE DIRECTORS

Mr. Chow, Stanley
Mr. Chan Kin Man, Eddie
(re-designated as Non-Executive Director on 1 September 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

Mr. Ho Kwok Wah, George *(Chairman)*
Dr. Chan Kin Keung, Eugene
Dr. Leung Lim Kin, Simon

NOMINATION COMMITTEE

Mr. Chan Yu Ling, Abraham *(Chairman)*
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee

REMUNERATION COMMITTEE

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

SCIENTIFIC ADVISORY COMMITTEE

Prof. Bruce Robinson *(Chairman)*
Prof. Rudolf Bauer
Prof. Piu Chan
Prof. Liang Song Ming

COMPANY SECRETARY

Mr. Lau Ka Kuen

AUTHORISED REPRESENTATIVES

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

INVESTOR RELATIONS

Ms. Lucine Zhu

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

LEGAL ADVISOR

ONC Lawyers (as to Hong Kong law)
Appleby (as to Cayman Islands law)

REGISTERED OFFICE

Offshore Incorporations (Cayman) Limited
P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

SHARE INFORMATION

Date of listing: 8 July 2015
Place of incorporation: Cayman Islands
Place of listing: Main Board of The Stock
Exchange of Hong Kong Limited
Stock Code: 1498
Board lot: 500 shares
Financial year end: 31 December

COMPANY'S WEBSITE

www.purapharm.com

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

DIRECTORS, BOARD COMMITTEES AND SENIOR MANAGEMENT

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 60, is the founder, Chairman, Chief Executive Officer and Executive Director. He is responsible for the overall strategic planning and operations of the Group's business. He also leads the Group's research development and technological development functions. Mr. Chan has over 30 years of extensive experience in Chinese medicine and healthcare products. He is a committee member of the Expert Group for Chinese Medicine Hospital and Government Chinese Medicines Testing Institute (GCMTI) Advisory Committee. In 2016, he was awarded Directors of The Year Awards 2016 by The Hong Kong Institute of Directors. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's Degree in Applied Sciences. He was accredited as a Chartered Engineer in the United Kingdom and was accredited as a Professional Engineer in Ontario, Canada. He is the spouse of Ms. Man Yee Wai, Viola, an Executive Director.

Dr. Tsoi Kam Biu, Alvin (蔡鑑彪), aged 64, is an Executive Director and Vice Chairman. He is responsible for the overall strategic planning of the Group's business. Dr. Tsoi has over 24 years of experience in sales management and Chinese medicine and healthcare products. Dr, Tsoi is a member of the Committee on Research and Development of Chinese Medicine in Innovation and Technology Commission, he is a consultant in The Hong Kong T. C. M. Orthopaedic and Traumatic Association Ltd. He is also an Honorary President and a consultant of The Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited. Dr. Tsoi is a listed Chinese Medicine Practitioner under the Chinese Medicine Practitioners Board of the Chinese Medicine Council of Hong Kong. Dr. Tsoi received his Doctorate Degree in Dental Medicine from De Ocampo Memorial College in the Philippines and obtained a Bachelor's Degree in Chinese Medicine from the Chinese Medical Research Institute of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited.

Ms. Man Yee Wai, Viola (文綺慧), age 55, is an Executive Director and has been with the Group since its founding in 1998. She is responsible for corporate and brand strategies, and the overall strategic planning of the Group's business. Ms. Man was the Key Account Manager and Group Product Manager of Nestle China Limited and the Consumer Marketing Manager of Coca-Cola China Ltd. and has over 20 years of experience in strategic planning, brand management, consumer and industrial marketing, key account management and new product development. Ms. Man was the Chairman (2012/13) of Tung Wah Group of Hospitals ("TWGHs"), one of the largest charitable organisations principally engaged in the provision of medical and health services, education and community services in Hong Kong and was a member of the Advisory Board of TWGHs (2013/14). Ms. Man was the Founding Chairman of the Board of Governors and College Council of Tung Wah College, and is currently the Council Chairman of Tung Wah College. She is currently a member of the HK Basic Law Promotion Steering Committee and a fellow of Hong Kong Institute of Directors. She was a member of the Council of the Education University of Hong Kong (2013-2019) and was a member of the Betting and Lotteries Commission (2013-2019). Ms. Man was a member of the Advisory Committee of the School of Chinese Medicine of Hong Kong Baptist University (2010 to 2016), and a member of the Risk Communication Advisory Group of the Centre for Health Protection of the Health Department (2013 to 2016). Ms. Man is a member of the Chinese People's Political Consultative Conference of Sichuan Province. She was awarded the Bronze Bauhinia Star by the Chief Executive of Hong Kong SAR in 2013. Ms. Man obtained her Bachelor's Degree in Science from The University of Western Ontario, Canada and her Master's Degree in Business Administration from The University of Windsor in Canada. She is the spouse of Mr. Chan Yu Ling, Abraham, the Group's Chairman, Chief Executive Officer and Executive Director.

Mr. Cheong Shin Keong (鄭善強), aged 64, was appointed as Non-Executive Director on 24 March 2020 and re-designated as Executive Director on 1 September 2020. Mr. Cheong is an Independent Non-Executive Directors of Bossini International Holdings Limited (stock code: 592), a company listed on the Stock Exchange since September 2017, and from January 2015 to January 2020 was an executive director of Television Broadcasts Limited (stock code: 511), a company listed on the Main Board of the Stock Exchange. Mr. Cheong joined Television Broadcasts Limited as controller, marketing & Sales in March 1989 and assumed the duties of general manager in April 2004. Mr. Cheong has extensive experience in the advertising and marketing industry and contributes actively to the professional development of marketing in Hong Kong through leading marketing industry bodies. He is a Fellow and Deputy Chairman of the Hong Kong Management Association as well as a Fellow and the former president of the Hong Kong Regional Board of the Chartered Institute of Marketing.

Dr. Norimoto Hisayoshi (範本文哲), aged 51, was appointed as Executive Director on 17 November 2020. Dr. Norimoto is the chief research and development ("R&D") officer of the Group, the general manager of PuraPharm Japan Corporation and SODX Co., Ltd. in Osaka in Japan and the vice president of production and operation in China of the Group. Dr. Norimoto is primarily responsible for the management of the R&D, operation and production of the Group in China and Japan. Dr. Norimoto joined the Group in March 2016 as the general manager of PuraPharm Japan Corporation. Prior to joining the Group, from 2001 to 2016, Dr. Norimoto was the pharmacological head of R&D at Kracie Pharmaceutical, Ltd, a historical Kampo pharmaceutical manufacturer in Japan. Dr. Norimoto has been a director of Association for Promoting Sustainable Use of Medicinal Resources of Japan since 2018, a senior expert in the Committee of Planting and Breeding of China Association of Traditional Chinese Medicine in China since December 2019 and the chapter coordinator of Japan region for the Consortium for Globalisation of Chinese Medicine since 2018. Dr. Norimoto received a Master's Degree in pharmaceutical science and the Doctor of Philosophy in pharmaceutical science from the National Toyama Medical and Pharmaceutical University (now known as the University of Toyama) in Japan in 1998 and 2001, respectively.

Non-executive Directors

Mr. Chow, Stanley (周鏡華), aged 57, is a Non-executive Director. Mr. Chow has over 21 years of experience as a corporate lawyer in Hong Kong and Canada. From May 1995 to October 1996, Mr. Chow served as a senior manager in the Listing Division of The Stock Exchange of Hong Kong Limited. Mr. Chow joined Allen & Overy, an international law firm, as an associate in November 1996 and served as a partner in its Hong Kong office from May 2000 to January 2009. Then, Mr. Chow joined the Hong Kong office of Latham & Watkins, another international law firm, where he was a partner and the local department chair of the corporate department in Hong Kong from March 2009 to February 2014 and a member of its Initiatives Committee from March 2012 to February 2014. Mr. Chow is an independent non-executive director of HKBN Ltd. (stock code: 1310). Mr. Chow graduated from Queen's University, Canada with a Bachelor of Commerce (Honours) Degree in May 1986 and obtained a Juris Doctor with Honour Standing from the University of Toronto, Canada in June 1989. Mr. Chow was admitted as a barrister and solicitor in Ontario, Canada in 1991, and in British Columbia, Canada in 1994. He was also admitted as a solicitor in England and Wales in 1994 and in Hong Kong in 1995.

Mr. Chan Kin Man, Eddie (陳健文), aged 60, was re-designated as Non-executive Director from Executive Director on 1 September 2020. Mr. Chan has over 30 years of extensive experience in professional accounting and taxation services. He is the founder and senior partner in CWCC, an accounting firm, to oversee the divisions of tax, corporate secretarial and China business advisory services. Mr. Chan was accredited as a Certified Public Accountant (practising) and a fellow member by the Hong Kong Institute of Certified Public Accountants in January 1990 and July 1993 respectively, a fellow member of the Association of Chartered Certified Accountants in January 2001 and a fellow member of The Institute of Chartered Accountants in England and Wales in December 2017. He received a higher diploma in accountancy from the Hong Kong Polytechnic University.

Independent Non-executive Directors

Dr. Chan Kin Keung, Eugene (陳建強), aged 57, is an Independent Non-executive Director. He is an Honorary Clinical Associate Professor of the Faculty of Medicine of The Chinese University of Hong Kong, a Visiting Professor of the Jinan University in the PRC, the President of the Association of Hong Kong Professionals. Dr. Chan has been appointed as a member of the Board of Advisors of Radio Television Hong Kong since 2010, and was appointed the Chairman of the Board in 2016; a member of the Advisory Committee of School of Chinese Medicine of Hong Kong Baptist University, and a member of the Appeal Board on Public Meetings and Procession since 2013; a member of the Quality Education Fund Steering Committee since 2015; and a Council Member of City University of Hong Kong and a member of Witness Protection Review Board (Police) since 2019. He was appointed as the non-official Justice of the Peace by the Chief Executive of Hong Kong SAR. In 2016, he was awarded the Bronze Bauhinia Star by the Government of Hong Kong. He has obtained a Bachelor's Degree in Dental Surgery from the University of Adelaide in Australia and Fellowship of the Faculty of General Dental Practice of Royal College of Surgeons of England.

Mr. Ho Kwok Wah, George (何國華), aged 62, is an Independent Non-executive Director. Mr. Ho has over 20 years of extensive experience in accounting, auditing and financial management. He is a director of Yong Zheng CPA Limited, an accounting firm in Hong Kong, as well as the Director of Hong Kong Shatin Industries and Commerce Association Limited, and Hong Kong Commerce and Industry Associations Limited, respectively. Mr. Ho is also an independent non-executive director of Town Health International Holdings Limited (stock code: 3886), and Rykadan Capital Limited (stock code: 2288). He was awarded Medal of Honour (MH) by the government of Hong Kong SAR in 2015. Mr. Ho obtained a Bachelor's Degree in Accountancy from the Hong Kong Polytechnic University.

Dr. Leung Lim Kin, Simon (梁念堅), aged 66, is an Independent Non-executive Director. Dr. Leung has more than 30 years of extensive experience in both the information technology and telecommunications industries. Dr. Leung is currently a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business, University of Western Ontario, where he is primarily responsible for advising the school on its mission and strategy in Asia. He is also currently a member of the College Council of Tung Wah College, where he is primarily responsible for determining key governance issues. In 2005, he was appointed as the president of Motorola Asia-Pacific. Since 2008, Dr. Leung has been the Chief Executive Officer of Microsoft Greater China region. From 2009 to 2010, he was the Governor of the Upper Canada College. In 2012, Dr. Leung was appointed as Chief Executive Officer of Harrow International Management Services Limited. Since March 2015, Dr. Leung is appointed as the vice chairman and executive director of NetDragon Websoft Holdings Limited (stock code: 777) and the Chairman of its subsidiaries including Promethean World Limited, Edmodo, Inc., Cherrypicks and Jumpshot Games, Inc., responsible for the overall strategic layout, direction of technical products and international business operation of all the education-related business of the company. From 2010 to 2015, Dr. Leung was a member of the International Advisory Committee of The Hong Kong Polytechnic University. Dr. Leung received his bachelor's degree in arts from the University of Western Ontario in Canada, an honorary doctorate in laws from the University of Western Ontario in Canada and a doctorate degree of business administration from the Hong Kong Polytechnic University.

Prof. Tsui Lap Chee (徐立之), aged 70, is an Independent Non-executive Director. Prof. Tsui is currently the President of the Academy of Sciences of Hong Kong and the President of Victor and William Fung Foundation. He is also an Independent Non-Executive Director of Hang Lung Group Limited (stock code: 0010). Prior to joining the Group, he was the Vice Chancellor of the University of Hong Kong. Prof. Tsui has over 40 years of research work experience, particularly in human genetics and genomics. Besides, he has over 300 peer-reviewed scientific publications and 65 invited book chapters. He was the recipient of many national and international prizes and was awarded 16 honorary doctoral degrees from universities around the world. He was appointed as the Justice of the Peace in 2006 and was awarded the Gold Bauhinia Star and the Grand Bauhinia Medal by the Chief Executive of Hong Kong SAR in 2011 and 2016 respectively. He received a Doctor of Philosophy Degree from the University of Pittsburgh in the U.S.A.

SCIENTIFIC ADVISORY

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

Prof. Rudolf Bauer, is Full Professor at the Department of Pharmacognosy and the Head of the Institute of Pharmaceutical Sciences, University of Graz, Austria. Prof. Bauer is a member of two expert groups on herbal drugs of the European Pharmacopoeia Commission. He has been active in the development methods for quality control of Chinese herbs for 26 years. He has published 350 original publications, reviews and book chapters.

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

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

Senior Management

Ms. Ho Yuk Chun (何玉珍), aged 53, is the General Manager of Nong's® Sales and Marketing. She is responsible for the sales and marketing of Nong's® CCMG products in the Hong Kong market. Ms. Ho joined the Group in January 2005 as Manager, Ethical division. Prior to joining the Group, in 2002, Ms. Ho was an Assistant Customer Service Manager of Watsons Water, a manufacturer of pure distilled water, where she was primarily responsible for customer services for Watson's water. In 2003, Ms. Ho was an Assistant Business Information Manager and she was responsible for IT project co-ordination and sales administration. She received a Bachelor's Degree in Business from Monash University in Australia in 2002.

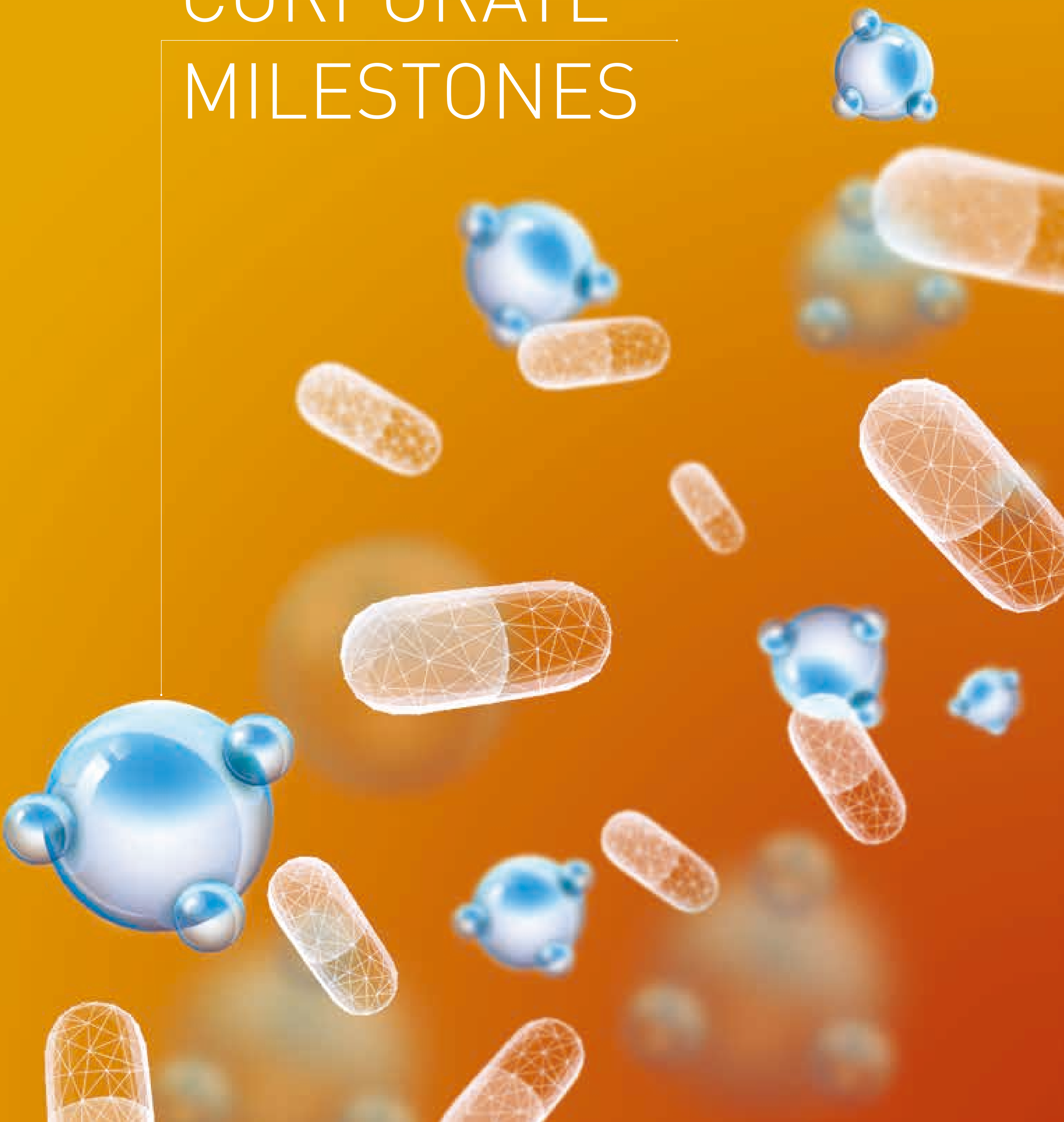
Mr. Lau Ka Kuen (劉家權), aged 39, is the Chief Financial Officer and Company Secretary of the Company. He is responsible for the Group's overall financial reporting and operation management, corporate finance and investment activities, investor relations and company secretarial matters. Mr. Lau joined the Group in 2013 as assistant financial controller. Prior to joining the Group, from 2005 to 2011, Mr. Lau was the staff accountant, associate, senior auditor and later on an audit manager in Deloitte Touche Tohmatsu, Hong Kong, a certified public accounting firm in Hong Kong, where he was primarily responsible for audit of companies listed on the Stock Exchange. Mr. Lau was accredited as a Certified Public Accountant by the Hong Kong Institute of Certified Public Accountants in 2007 and a chartered financial analyst by the Chartered Financial Analyst Institute in 2014. He obtained a Bachelor's Degree in business administration in finance and information system from the Hong Kong University of Science and Technology in 2005.

Ms. Ruan Qiong (阮瓊), aged 43, is the General Manager of China Sales & Marketing. She is responsible for the Group's sales and marketing in China market. Ms. Ruan joined the Group in January 2019 as General Manager of China Sales and Marketing. Prior to joining the Group, from 2009 to 2018, Ms. Ruan worked for Eli Lilly Pharmaceutical Company as a Marketing Director and then a Business Unit Head where she was primarily responsible for sales & marketing of hospital, retail and e-commerce channel; from 2001 to 2008, Ms. Ruan worked for Boehringer Ingelheim Pharmaceutical Company as a sales associate, and then a trade marketing manager for consumer health care division. She received a bachelor's degree from the University of Shanghai for Science and Technology and Certificate from City University of New York in 2001.

Mr. Shi Gang (石鋼), aged 65, is the Vice President of Greater China. Mr. Shi joined our Group as the Chief representative of the Beijing representative office and Vice President of the Greater China region in October 2004. He is mainly responsible for liaising with government departments in the PRC with respect to our Group's operation, liaising with the China Food and Drug Administration at the provincial level, obtaining sales approval and monitoring the relevant policies and regulations in the PRC. Prior to joining our Group, Mr. Shi was appointed as the Chief representative of Ryoden (Holdings) Limited (菱電(集團)有限公司) in 1992, a company principally engaged in the elevator business, where he was primarily responsible for human resources and operational management of the Beijing representative office, as well as liaising with government departments and leaders in Beijing on behalf of the board of directors of Ryoden (Holdings) Limited (菱電(集團)有限公司). Mr. Shi was accredited as an electrical engineer in the PRC by The Ministry of Science and Technology of the PRC (中華人民共和國國家科學技術委員會) in November 1994. Mr. Shi received his Bachelor's Degree in journalism from Beijing Renwen University (北京人文大學) (formerly known as Beijing Renwen Hanshou University (北京人文函授大學)) in May 1987. He completed the Beijing Foreign Investment Enterprise senior management training course (北京市外商投資企業中方高級管理人員培訓班) and the Beijing Foreign Investment Enterprise personnel management training course (北京外商投資企業人事管理培訓) organised by the Beijing Personnel Bureau (北京市人事局) in December 1994 and November 1994, respectively.


PuraPharm
PuraPharm
PuraPharm Research Institute

CORPORATE MILESTONES



CORPORATE MILESTONES

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

1998

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

2002

- In recognition of the Group's research and development expertise, the Group was selected by the State of Administration of Traditional Chinese Medicine to undertake the Concentrated Chinese Medicine Granules (the "CCMG") combination formulation research project to review and advise on the use of CCMG combo formulae products in China.

2004

- The Group was selected as one of the six pilot manufacturers and also the only non-PRC company that is licensed by the China Food and Drug Administration (the "CFDA") to manufacture and sell CCMG products in China.

- The Group became a CCMG product supplier of the majority of Hong Kong hospitals and healthcare institutions with Traditional Chinese Medicine (the "TCM").

- The Group began to sell its CCMG products to mobile clinics operated by non-profit organisation customers.

2009

- The Group's testing laboratory was certified by the China National Accreditation Service for Conformity Assessment (the "CNAS"), an international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards.

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

2010

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

2011

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

2014

- The Group's Radix Astragali (黃芪) Formula Granules was verified by the USP Dietary Ingredient Verification Program

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

2015

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

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

2016

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

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

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

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

2017

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

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

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

2018

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

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

2019

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

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

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

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

2020

- In February 2020, through the contingency application procedure, Guangxi Zhuang Autonomous Region Food and Drug Administration (''GXFDA'') of the PRC has approved and authorised PuraPharm Nanning to manufacture Qing Fei Pai Du Tang (清肺排毒湯) and Kang Fu Yi Hao Fang (康復1號方) granules, used for the treatment of patient who contacted COVID-19 pandemic.

- The Group has completed the Rights Issue of HK$98 million net proceeds in March 2020, which further strengthened the capital base and the financial position of the Group.

- The Group launched an immunity boosting product, Immuzac+™, an enhanced version of Immuzac® fortified with vitamin C and manufacturing in Japan.

- The Group launched the Nong's cinematic brand TVC in March 2020.

- The Group has revamped a new research and development centre in Nanning, to enhance the Group's research and development capability for innovative products development, and preparation for the upcoming national CCMG standardization in China.

- The Group has completed phase one of new production facility in Nanning, which composed of 3 modernised warehouse buildings with total gross floor area of 25,079 square metres in aggregate, as a central hub for supply chain.

From Farm to Bottle


PuraPharm
酸棗仁湯
NONG'S
農本方
濃縮中藥膠囊

CHAIRMAN'S STATEMENT

NONG'S 農本方
中醫診所
Chinese Medicine Clinic
提供全面中醫診療服務
免煎中藥配方顆粒
預約電話
Appointment
2771 0200

CHAIRMAN'S STATEMENT

2020 was a particularly difficult year for most industries due to the global outbreak of COVID-19 pandemic. Despite the adverse economic environment, PuraPharm managed to report a moderate profit under our stringent budget controls and more efficient management structure initiated a couple of years ago.

With the challenging economic situation in 2020, the Group reported a revenue of HK$601.8 million, representing a decline of HK$94.1 million or 13.5%, when compared to that of 2019. Despite the drop in revenue, the Group recorded a net profit of HK$31.7 million. This is a big improvement over 2019's net loss of approximately HK$227.3 million.

Such profit was mainly attributable to the significant government grants received from both the PRC and the Hong Kong Government, but would not have been possible without the Group adopting a stringent cost control policy, delaying some expansion plans until the business sentiment improves, and generally improving our underlying operations and profitability which led a significant narrowing of our operating loss position. In 2020, the Group's operating performance improved gradually after the very difficult first quarter and has further improved in the second half of 2020 as China began to successfully control the pandemic from April 2020.

PROSPECTS

The Group's mission for 2021 is clear. The successful structural reform of our business conducted in the past years has paved the way for a more high-tech infused and customer centric organization with a high passion in not just Chinese medicine alone, but in the larger botanical medicine arena.

The opening of the CCMG market

The China market will be the growth engine of the Group in the future. However, the Chinese National Medical Products Administration ("NMPA") has recently announced the ending of the provisional testing manufacturing sites for concentrated Chinese medicine granules ("CCMG"). To the Group, this signifies that the China CCMG market will be progressively opened once the full CCMG national standards are published. It is expected that competition will be fierce as more players will enter the market if they can fulfill the requirements of the National standards. The Group is fully aware of the changing competitive landscape and is prepared to take on the challenges this may bring. Having been one of the five companies licensed by the NMPA to manufacture and sell CCMG nationally in China for over fifteen years, the Group sees the opening of the market as an opportunity rather than simply a threat. We envisage that the deregulation of the CCMG market will unleash the demand for CCMG products, thus growing the overall market. We once again intend to be one of the first movers in the industry to take advantage of this expansion in the market because of our well-established position in terms of market knowledge and technological advancement. Throughout the years, we have established our own Chinese medicine clinics in Hong Kong enabling us to go directly in serving our customers. We have also established strong ties with top-tiers universities and academic institutions to improve the efficacy of our products through continuous research and development. We have accumulated a strong clinical database with advanced artificial intelligence and software technologies, which helps us to streamline our products and our services to better serve our customers. We have vertically integrated with our supply chain to include our own seeds and seedling manufacturing facility with plantations in the province of Guizhou to enable us to offer true "farm to bottle" products. We will continue to work with prestige research institutions both locally and internationally to improve the quality of our products. We intend to elevate the positioning of our products and to differentiate ourselves from other competitors in order to be the most premium brand in the industry.

Healthcare Products

With the acquisition of KAN Herbs in the USA and SODX in Japan, we have well positioned ourselves as a true international player in the health products arena. The COVID-19 pandemic has aroused the health consciousness of the world population, which could create a substantial growth in the over-the-counter (OTC) health supplement market. With our acquired production capacity and distribution network, we plan to introduce a series of immune boosting supplements targeting consumers who want to improve their bodily immunity and other functions against COVID-19 pandemic. Through internet-based campaigns, we envisage integrating e-commerce channels with a multi-echelon supply chain system to promote our products. Some of the products produced in our Japan factory could be imported back into China and Hong Kong through various means of on-line marketing including cross-border selling channels to expedite the go-to-market process.

Clinic Operation

Ever since the establishment of the first Nong's Clinic 20 years ago, PuraPharm has established itself as the leading Chinese medicine clinic chain in Hong Kong. We believe there is now the opportunity to extend this business into the Greater Bay Area ("GBA"). With a similar young and affluent demographics in the GBA comparing to Hong Kong, Nong's clinic concept is expected to be well recognised there. We believe the potential is huge, and we are planning to introduce a prototype clinic in Shenzhen to test and refine our approach to rolling out a chain of clinics in due course.

Seeds and Seedling Propagation & Plantation

The Guizhou provincial Government has been extremely supportive in providing incentive to our seeds and seedling business in Guizhou. In that respect, we will continue to build up our capacity with the corresponding sales and marketing efforts. The vertical integration with our CCMG production facilities in Guangxi, Nanning has proven to be a cost-efficient initiative. We will continue to transfer the herb pre-processing work and warehousing from Guangxi to Guizhou, where we have higher efficiency and lower costs. We will also collaborate deeper with the local government to grow indigenous herbs for the mutual benefit of securing a steady supply of high-quality herbs, which in turn will also help the government to alleviate local poverty.

Strategic Cooperation

We are constantly seeking strategic partners with our business development team to build long-term reciprocal collaborations to achieve positive synergistic results. The Group understands the importance of strategic partnerships in China and will continue to look for opportunities which will enhance our resources and the profitability of our different business units to the Group. We believe our robust business foundation in China will continue to be fruitful and bring more values for our investors and shareholders.

APPRECIATION

I wish to express my sincere appreciation to our shareholders, customers and business partners for their unwavering support and trust over the years. I would also like to extend my heartful gratitude to my fellow directors and our employees for their dedication.

By Order of the Board

Chan Yu Ling, Abraham
Chairman
Hong Kong, 25 March 2021

CORPORATE PROFILE

CORPORATE PROFILE

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

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

"The Group has invested in TCM research and production facilities in Nanning, Guangxi, China. The factory complies with the PRC GMP standards, the Australia's TGA standards, one of the strictest certification standards in the world, as well as the international PIC/S GMP standards. The Group is also the only Chinese medicine manufacturer to have CCMG products verified and recognized by the United States Pharmacopeia (USP). The Group's laboratory is certified by the CNAS, the international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards. The Group's manufacturing facilities are regarded as one of the most advanced TCM research and manufacturing facilities in Asia."

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

CORPORATE STRENGTHS

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

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

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

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

- Aiming to enhance the Group's research and development capability, the Group has revamped a new research and development centre, with total gross floor area of 1,632 square metres, in Nanning, for innovative products development, and preparation for the upcoming national CCMG standardization in China.

STATE-OF-THE-ART PRODUCTION FACILITIES

One of the Finest TCM Facilities in Asia

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

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

New Smart Factory in Nanning

The Group is developing a new smart factory located in Hi-tech Development Zone, Nanning, Guangxi Zhuang Autonomous Region, which occupies a land parcel of approximately 49,185 sq.m. with a total gross floor area of approximately 65,967.66 sq.m. This smart factory will represent a leap forward from more traditional automation to a fully connected and flexible system, the one that can use a constant stream of data from connected operations and production systems to learn and adapt to future demands. Phase one comprising of 3 modernised warehouse buildings (total gross floor area: 25,079 sq.m.) has been completed in late 2020 which will act as a central hub for product supply.

Pilot Factory at Japan

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

USA GMP Factory

The Group offers over 300 extensive herbal formula products in U.S. and Europe market under the brand "KAN" through its subsidiary, Kan Herb Company, in California. Meticulous about the efficacy, quality and safety of every proprietary products, Kan Herb manufactures "KAN" products at its production facilities in California, in compliance with GMP. In Kan Herb, it controls all phase of the production process, from procurement and testing of raw ingredients to the manufacturing and packaging of the products.

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

PRODUCTS AND SERVICES OVERVIEW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CardioClear
Pura Pharm
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PRODUCTS AND SERVICES OVERVIEW

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

Our mission is simple:

> “We dedicate ourselves to humanity’s quest for longer, healthier, happier lives through the innovation and modernisation of Chinese Medicine”

NONG’S CCMG PRODUCTS

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

In 2020, through the contingency application procedure, Guangxi Zhuang Autonomous Region Food and Drug Administration (''GXFDA'') of the PRC has approved and authorised PuraPharm Nanning to manufacture Qing Fei Pai Du Tang (清肺排毒湯) ("QFPDT") and Kang Fu Yi Hao Fang (康復1號方) granules. According to the clinical treatment result, QFPDT was recommended by the National Administration of Traditional Chinese Medicine to use nationally for the clinical treatment of COVID-19 pandemic. QFPDT granule manufactured by the Group was used for treatment of patients who contacted the COVID-19 pandemic.

OTC PRODUCTS

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

Our certifications under these international standards are testaments to the Group's advanced production capacity and outstanding product quality.

Immuzac product has been researched for years using an advanced proprietary research technology, and proven to be effective in strengthening the body's immune functions in defense against viral and contagious pathogenic infection, thereby increasing customer's resistance to illnesses.

NONG'S CLINICS

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

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

The Group's characteristics:

1. High-quality Chinese Medical Service

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

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

2. Tailor-made Health-keeping Service

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

3. Scientific management, human-based service

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

- All medical records are computerised for easy retrieval.


3M³提

MANAGEMENT DISCUSSION AND ANALYSIS


生脈散
大柴胡湯
茵陳蒿湯
補陽還五湯
蘇子降氣湯
辛夷散
龍膽瀉肝湯
參苓白朮散
天麻鉤藤飲
知母
桑白皮
蒲公英
牡蠣
太子參
瓜蔞
牛膝
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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	Year ended 31 December					
	2020	**% of**	2019	% of	Change	
	HK$000	**total**	HK$000	total	HK$000	%
Revenue						
— China CCMG	**278,478**	**46.3%**	285,220	41.0%	(6,742)	-2.4%
— Hong Kong CCMG	**146,433**	**24.3%**	161,573	23.2%	(15,140)	-9.4%
— Chinese healthcare products	**85,752**	**14.2%**	90,429	13.0%	(4,677)	-5.2%
— Nong's ® (農本方®) Chinese medicine clinics	**49,924**	**8.3%**	96,413	13.9%	(46,489)	-48.2%
— Plantation	**41,228**	**6.9%**	62,244	8.9%	(21,016)	-33.8%
	601,815	**100.0%**	695,879	100.0%	(94,064)	-13.5%
Gross profit	**369,949**		398,839		(28,890)	-7.2%
Net (loss)/profit for the year	**31,710**		(227,258)			

The Group's revenue for the year ended 31 December 2020 was HK$601.8 million, representing a decrease of HK$94.1 million or 13.5% compared to HK$695.9 million in last year. The revenue drop was mainly attributable to the adverse impact brought by the widespread outbreak of the COVID-19 pandemic in the People's Republic of China (the "PRC") and Hong Kong since early 2020, which negatively affected consumers' sentiment and the demand for Chinese medicine services. Also, the Group has revamped it's clinic network in Hong Kong by closing the loss-making clinics, number of operating clinics decreased from 57 as at 31 December 2019 to 30 as at 31 December 2020. As a result, such downsize of Hong Kong clinic network led to a revenue drop of HK$46.5 million in clinic segment, accounting for 49.4% of the total revenue drop of the Group during the year ended 31 December 2020.

Despite the decline in revenue, the Group recorded a net profit of HK$31.7 million for the year ended 31 December 2020, as compared with the net loss of HK$227.3 million in last year. The increase in net profit was mainly attributable to the following factors:

(i) no significant impairment loss recognised for the year ended 31 December 2020 as compared to last year; and

(ii) receipt of significant non-recurring government grants of HK$65.8 million recorded by the Group as other income and gains for the year ended 31 December 2020, representing an increase of HK$53.7 million compared to last year of HK$12.1 million. The government grants were mainly consisted of the sum received from the relevant authorities of the PRC to reward the Group's industrial investment in Guizhou province, finance costs subsidies, tax refund and grants for certain research and development projects, and the subsidies from Hong Kong Government to support enterprise against the negative impact brought by the COVID-19 pandemic.

If excluded such non-recurring government grant income, the Group recorded an operating loss of HK$34.1 million for the year ended 31 December 2020, which was materially less than last year, due to stringent control on the operating costs undertaken during the year ended 31 December 2020. And majority of such operating loss was resulted from first half of 2020, the revenue and profitability were improving in the second half of 2020 due to the control of the COVID-19 pandemic, especially in China market.

	2020 2H HK$000	2020 1H HK$000	Change HK$'000	%
Revenue	321,383	280,432	40,951	14.6%
Net profit	20,273	11,437	8,836	77.3%
Government grants	24,976	40,823	(15,847)	-38.8%
Adjusted operating loss by excluding Government grants	(4,703)	(29,386)	24,683	-84.0%

CHINA CCMG

For the year ended 31 December 2020, the sales of CCMG in China was HK$278.5 million, representing a decrease of HK$6.7 million or 2.4% compared to HK$285.2 million in last year. Due to the outbreak of the COVID-19 pandemic since the beginning of 2020, the PRC Government has adopted a series of stringent measures to prevent and control the COVID-19, including travel restrictions, regional lockdowns, and

temporary business shutdowns of certain Chinese medicine clinics and hospitals. As a result, the China CCMG sales business was negatively affected, especially in first quarter of 2020. But the CCMG sales in China was gradually improved in second half of 2020 due to the control of the COVID-19 pandemic in China. Comparing to the first half of 2020, the sales of China CCMG increased by 29.2% in second half of 2020.

HONG KONG CCMG

The Group continued to maintain its leading market position in Hong Kong and sell its CCMG products directly to customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners. During the year ended 31 December 2020, the direct sales of CCMG products in Hong Kong was HK$146.4 million, representing a decrease of HK$15.1 million or 9.4% compared with last year. The outbreak of COVID-19 pandemic affected the overall business environment and consumers' sentiment in Hong Kong, certain Chinese medicine hospitals and clinics were not in full operation and this led to a decrease in demand for CCMG products from the Group.

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

During the year ended 31 December 2020, the sales of CCMG products and provision of Chinese medical services from the Group's Nong's® (農本方®) Chinese medicine clinics was HK$49.9 million in aggregate, representing a decrease of HK$46.5 million or 48.2% compared to HK$96.4 million in last year. The decrease in revenue was mainly attributable to the downsize of the clinic network in Hong Kong by closing the loss-making clinics. The number of clinics in operation in Hong Kong decreased from 57 as at 31 December 2019 to 30 as at 31 December 2020.

Although the revenue of Nong's clinics segment decreased by 48.2%, the loss attributed by Nong's clinics segment has substantially decreased during the year ended 31 December 2020 as the loss-making clinics were closed. However, the consumer sentiment and the demand for Chinese medicine services were negatively affected by the COVID-19 pandemic. As a result, the Group's clinic business segment still experienced a loss during the year ended 31 December 2020.

Instead of expanding the clinic network in Hong Kong, the Group will focus on improving the performance of the existing clinic portfolio and proactively negotiate with the landlords on rental reduction in order to achieve profitability in this segment as early as possible.

CHINESE HEALTHCARE PRODUCTS

Sales by regions

	Year ended 31 December					
	2020		2019			
	Revenue	**% of total**	Revenue	% of total	Change	
	HK$000		HK$000		HK$000	%
U.S.A.	**38,429**	**44.8%**	36,092	39.9%	2,337	6.5%
Japan	**10,797**	**12.6%**	10,447	11.6%	350	3.4%
Hong Kong	**36,526**	**42.6%**	43,890	48.5%	(7,364)	-16.8%
	85,752	**100%**	90,429	100.0%	(4,677)	-5.2%

During the year ended 31 December 2020, revenue from sales of Chinese healthcare products in U.S.A., Japan and Hong Kong markets was HK$85.8 million in aggregate, representing a decrease of HK$4.7 million or 5.2% as compared to HK$90.4 million in last year.

Among the Group's Chinese healthcare products segment, the sales in overseas market recorded an increase due to the increase in consumer demand. The sales drop in Hong Kong market was due to the outbreak of COVID-19 pandemic, causing difficult retail market and sluggish consumption sentiment, which led to a decline in customer flow in general in pharmacies and key chain stores.

Subsequent to the outbreak of COVID-19 pandemic, the Group believed that consumers' health awareness will increase which will contribute to the growth in demand for healthcare products and render further opportunities for the Group's Chinese healthcare products segment. The Group will continue to proactively develop new and innovative healthcare products to enrich the products portfolio, devote more focus for marketing the Group's healthcare products through online platform in order to counter the weakened retail market.

PLANTATION

For the 31 December 2020, the upstream plantation segment contributed HK$41.2 million to the Group's overall revenue, less than last year of HK$62.2 million by HK$21.0 million or 33.8%. The revenue from the plantation segment was mainly derived from the plantation and trading of raw Chinese herbs. The decrease in revenue from the plantation segment was mainly attributable to decrease in Chinese raw herbs trading business along with the keen market competition.

During the year, the Group has expanded the planting bases by collaborating with the local Government and farmers for several plantation projects. Such planting bases were recorded as biological assets of the Group and this led to a significant fair value gain recorded as "Other income and gains" for the year ended 31 December 2020.

GROSS PROFIT

	Year ended 31 December		
	2020	2019	Change
	HK$000	HK$000	%
Revenue	**601,815**	695,879	-13.5%
Cost of sales	**231,866**	297,040	-21.9%
Gross Profit	**369,949**	398,839	-7.2%
Gross profit margin	**61.5%**	57.3%	

The Group's gross profit margin for the year ended 31 December 2020 was 61.5%, representing an increase of 4.2%, compared to 57.3% in last year. The average selling price of CCMG in China market has slightly increased and other business segments remained stable during the year ended 31 December 2020. In additional to the price increment in China market, the improvement in gross profit margin was attributable to the decrease in average unit cost of CCMG products resulted from the cost control on production.

OTHER INCOME AND GAINS

The Group's other income and gains mainly comprised of government grants, fair value gain on biological assets, net foreign exchange gain, gain from sale of equipment and accessories, financial assets at fair value through profit or loss and interest income. For the year ended 31 December 2020, the Group's other income and gain was HK$94.7 million, representing an increase of HK$77.2 million compared to HK$17.5 million in last year.

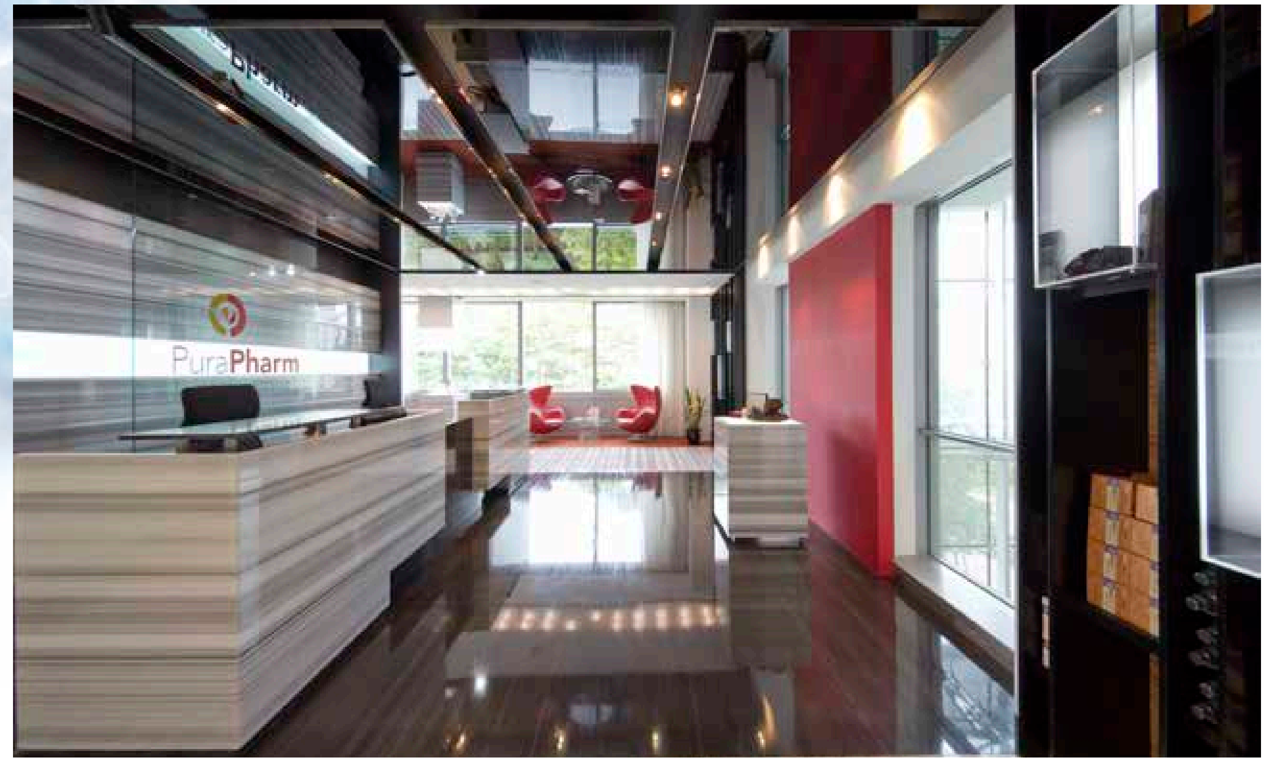
The increase was mainly due to significant non-recurring government grants of HK$65.8 million recorded by the for the year ended 31 December 2020, representing an increase of HK$53.7 million compared to last year of HK$12.1 million. The government grants were mainly consisted of the sum received from the relevant authorities of the PRC to reward the Group's industrial investment in Guizhou province, finance costs subsidies, tax refund and grants for certain research and development projects and the subsidies from Hong Kong Government to support enterprise against the negative impact brought by the COVID-19 pandemic.

The Group also recorded HK$20.8 million net fair value gain on biological assets resulted from the additional planting bases of the Group in Guizhou provinces, as compared to a net fair value loss on biological assets of HK$19.6 million in last year. The additional planting bases during the year was mainly constituted the collaborating plantation projects with local Government.

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 2020, the Group's selling and distribution expenses was HK$210.5 million, representing a decrease of HK$15.7 million or 6.9% compared to HK$226.2 million in last year. The decrease was mainly attributable to (i) decrease in marketing activities due to the impact of COVID-19 pandemic and (ii) decrease in distribution cost and distributors commission associated with the sales drop.

For the year ended 31 December 2020, selling and distribution expenses as a percentage to revenue increased from 32.5% for last year to 35.0% for the year ended 31 December 2020. Despite the sales dropped for the year ended 31 December 2020, the Group maintained a reasonable marketing expenses to keep the brand competitiveness and the market awareness of the Group's products.



ADMINISTRATIVE EXPENSES

	Year ended 31 December			
	2020	2019	Change	
	HK$000	HK$000	HK$'000	%
Clinics operating expenses	**32,802**	81,375	(48,573)	-59.7%
Research and development costs	**22,038**	34,733	(12,695)	-36.5%
General administrative expenses	**98,617**	112,374	(13,757)	-12.2%
Total administrative expenses	**153,457**	228,482	(75,025)	-32.8%

The Group's administrative expenses included both operating expenses for clinics and general administrative expenses. The 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 2020, the Group's operating expenses for clinics segment was HK$32.8 million, representing a decrease of HK$48.6 million or 59.7% compared to HK$81.4 million in last year. The decrease was mainly attributable to the downsizing of clinic network in Hong Kong. The number of clinics in operation in Hong Kong decreased from 57 as at 31 December 2019 to 30 as at 31 December 2020.

The research and development costs for the year ended 31 December 2020 decreased by HK$12.7 million or 36.5%, mainly due to the deferment of certain development projects resulted from the impact of COVID-19 pandemic.

The Group's general administrative expenses for the year ended 31 December 2020 decreased by HK$13.8 million or 12.2%, to HK$98.6 million due to the control on the operating costs.

OTHER EXPENSES

The Group's other expenses mainly comprised of provision for a litigation claim, voluntary charity donation, and loss on disposal of fixed assets. The decrease in other expenses was mainly due to (i) a net fair value loss on biological assets of HK$19.6 million recorded in last year, while it was a net fair value gain on biological assets of HK$20.8 million for the year ended 31 December 2020; and (ii) a net foreign exchange loss recorded in last year, while it was a net foreign exchange gain for the year ended 31 December 2020.

FINANCE COSTS

For the year ended 31 December 2020, the Group's finance costs amounted to HK$26.8 million, slightly decreased by HK$0.4 million or 1.4% as compared to HK$27.2 million in last year. Despite the decrease in average utilisation of bank and other borrowings during the year ended 31 December 2020, the average interest cost was increased.

INCOME TAX EXPENSE

During the year ended 31 December 2020, the Group's income tax expenses decreased from HK$11.1 million in last year to HK$8.5 million for the year ended 31 December 2020. The decrease in income tax expense was mainly due to the write-off of deferred tax assets in respect of the tax losses arising from the Group's clinic and Chinese healthcare products business in Hong Kong in last year, no such write-off for the year ended 31 December 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the business plan disclosed in this annual report, the Group did not have any future plans for material investments or capital expenditures as at 31 December 2020.

LIQUIDITY AND FINANCIAL RESOURCES

Cash position and interest-bearing bank and other borrowings

The Group liquidity and financial resources position as follow:

	Year ended 31 December		Change	
	2020	2019		
	HK$000	HK$000	HK$'000	%
Net current assets (liabilities)	15,791	(41,378)	57,169	N/A
Cash and cash equivalent	91,401	68,009	23,392	34%
Interest-bearing bank and other borrowings	(458,321)	(455,997)	(2,324)	1%
Current portion	(279,329)	(312,282)	32,953	-11%
Non-current portion	(178,992)	(143,715)	(35,277)	25%
Loan from a director	—	(15,000)	15,000	-100%
Unused bank facilities	61,488	80,171	(18,683)	-23%

The Group generally finances its operation with operating cash flows and bank and other borrowing facilities. We actively manage the cash and borrowings of the Group to ensure an appropriate level of liquidity and sufficient funds are available to meet our Group's business need.

Cash flow and liquidity ratio analysis

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Net cash from operating activities	**119,854**	131,200
Net cash used in investing activities	**(92,110)**	(91,461)
Net cash used in financing activities	**(3,613)**	(79,246)
Current ratio	**1.0**	0.9
Gearing ratio	**0.9**	1.3

For the year ended 31 December 2020, the Group's net cash from operating activities was HK$119.9 million, which was slightly lower than last year by HK$11.3 million. The decrease in operating cash inflow was mainly due to the impact of COVID-19 which resulted in a decrease trade and bills receivables collection from China CCMG sales, and increase in cash outflow for settlement of trade and bills payables for the raw material purchase for production.

For the year ended 31 December 2020, the Group's net cash used in investing activities was HK$92.1 million, which was mainly used in (i) the construction of new warehouses in Nanning to replace the existing outsourcing warehouse for the Group's inventories storage in Nanning. Three new warehouses of 25,079 square meter floor areas in aggregate were completed and in-use in December 2020; (ii) the construction and equipment for a research and development building located in Nanning, to further strengthen the Group's research and development abilities; and (iii) acquisition of a Chinese medicine management software, namely the Traditional Chinese Medicine Advisor 3.0 ("TCMA 3.0"), to further enhance the Group's clinic operation management.

For the year ended 31 December 2020, the Group's net cash used in financing activities was HK$3.6 million, significantly decreased by HK$75.6 million as compared to last year due to the net proceed of Rights Issue of HK$98.0 million received during the year ended 31 December 2020.

The Group's current ratio increased from 0.9 as at 31 December 2019 to 1.0 as at 31 December 2020, such improvement was mainly attributable to (i) improvement of cash and cash equivalent position resulted from Rights Issue and increase in Government grants received; and (ii) decrease in current portion of interest-bearing bank and other borrowing as the Group has renewed certain short-term financing by long-term project loans.

The Group's gearing ratio (calculated by dividing total interest-bearing bank and other borrowings, and a loan from a director by total equity) improved from 1.3 as at 31 December 2019 to 0.9 as at 31 December 2020. Such improvement was mainly attributable to (i) strengthen of the Group's equity by completion of a Rights Issue and increase in net profit for the year ended 31 December 2020; and (ii) fully settled of a loan to a director.

In order to improve the current ratio and gearing ratio, the Group will consider to leverage on the equity financing. 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	
	2020	2019
	HK$'000	HK$'000
Property, plant and equipment	**142,575**	182,374
Right-of-use-assets	**33,588**	80,099
Financial assets at fair value through profit or loss	**18,258**	18,195
Inventories	**41,717**	39,113
Trade and bills receivables	**34,124**	62,727
Pledged bank deposits	**35,056**	25,115
	305,318	407,623

CAPITAL COMMITMENT

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Land and Buildings	**22,375**	26,579
Plant and machinery	**1,212**	8,142
	23,587	34,721

CONTINGENT LIABILITIES

Other than the legal proceedings in the PRC brought against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedlings products) the Group had no contingent liability as at 31 December 2020. Details of the legal proceedings in the PRC are set out in note 35 to the consolidated financial statements.

EXCHANGE RISK

The Group conducts business primarily in Hong Kong and China with most of its transactions denominated and settled in Hong Kong dollars and Renminbi. Currently, the Group has not entered into any foreign exchange contracts or any hedging instrument 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 2020, the Group had a total of 711 employees (31 December 2019: 696 employees). During the year ended 31 December 2020, total staff costs excluding Directors' remuneration was HK$87.8 million (31 December 2019: HK$81.1 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THE REPORT

1.1. Reporting standards, scope & period

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

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

The establishment of the Chinese medicine clinic, Nong's® clinics was to support various stakeholders' demands. The network of Nong's® clinics is achieving the mission of the Group to bring longer, healthier and happier lives by providing quality pharmaceutical products and services to the community. As at 31 December 2020, the Group had 30 clinics in operation in Hong Kong and 1 clinic in operation in Guangxi.

This report covered the financial reporting period from 1 January 2020 to 31 December 2020 (the "reporting period"). All ESG-related activities during the reporting period were presented in this report.

1.2. Reporting principle

We have followed the reporting principle set out in HKEx ESG Reporting Guide in the preparation of this ESG Report.

- **Materiality:** The Group has invited its key stakeholders including employees, suppliers and customers across 2019 and 2020 to complete the sustainability survey. Based on the survey results, a materiality matrix was created to identify the material topics to the business operation. For details about the assessment, please refer to the section headed "Materiality assessment".

- **Quantitative:** To evaluate and review the effectiveness of ESG policies and management approach, the Group records, calculates and reports the ESG-related information in a quantitative basis. The Group has engaged an independent consultant to perform the calculations to sustain the accuracy and validity of the data.

- **Balance:** The Group discloses its ESG performance fairly and unbiasedly. The Group not only discloses the management approach and initiatives of the material issues, but also the challenges.

- **Consistency:** The Group consistently publishes its ESG Report annually in accordance with the HKEx ESG Reporting Guide and the constant calculation methodologies to provide consistent and comparable disclosure.

2. CONTACT DETAILS

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

3. BOARD STATEMENT

Dear Stakeholders,

We are pleased to present our Environmental, Social and Governance Report and the sustainability-related achievements we made throughout 2020.

In respect to the global outbreak of COVID-19 pandemic, 2020 was definitely one of the most challenging year for both global economy and our Group. Amid the inevitable and unprecedent impacts brought by the virus, we managed to adjust our operations and adapt to the new normal rapidly.

We believe the pandemic has also given us a new opportunity to learn and prepare for future. Because of COVID-19 pandemic, we have intensified our efforts in relation to ESG issues. The Board of Directors (the "Board") was also aware of the new ESG requirements instituted by the HKEx. As a Chinese medicine manufacturer, climate-related risk becomes our operational risk since the raw herb supplies are prone to the natural disaster and climate events. In the light of this, we are developing corresponding environmental targets and policies to manage the associated risks.

On behalf of the Board and PuraPharm, I would like to express our sincere appreciation and gratitude to our employees for their persistent effort and our other stakeholders for their support under this difficult time. We will continue to promote sustainability and stability of our business, and be the leader in Chinese medicine with our innovation and conviction.

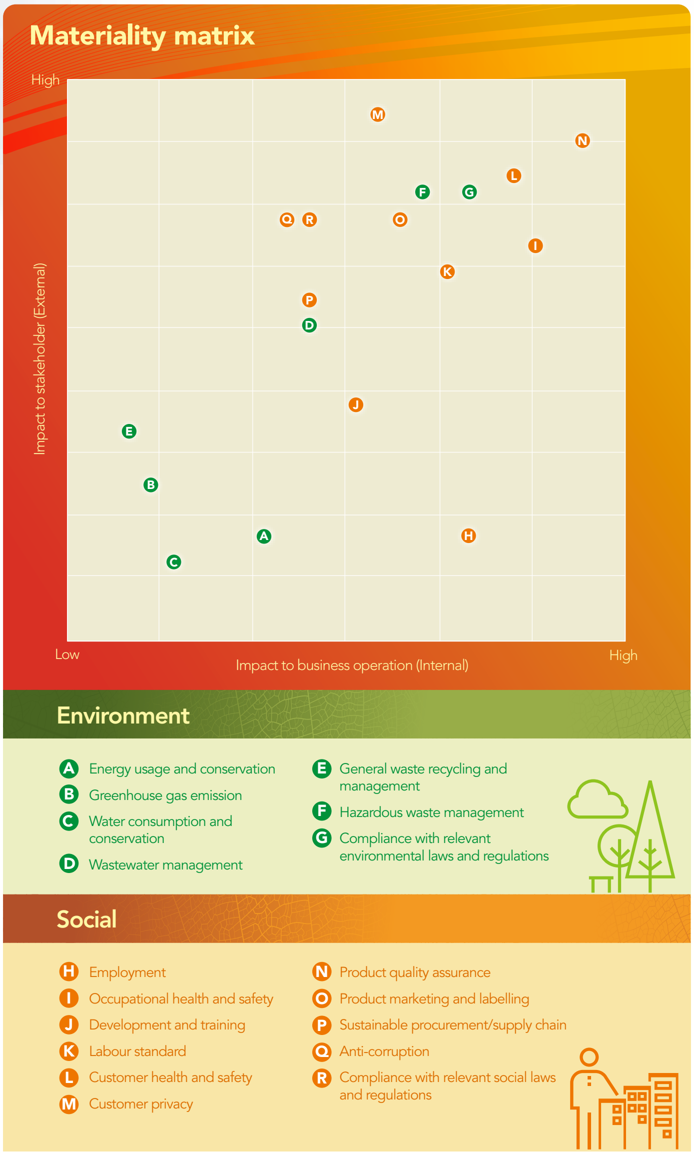
Chan Yu Ling, Abraham
Chairman

4. STAKEHOLDER ENGAGEMENT

PuraPharm values deeply about the stakeholders' view in the way to sustainable development. Therefore, the Group has established the following communication channels for its key stakeholder to enable free flow of feedback:

5. MATERIALITY ASSESSMENT

As a key part of the sustainable development, materiality assessment enables the Group to further understand the stakeholders' expectations on the Group's development, and prioritise the ESG topics by their importance to the Group. During the reporting period, the Group has conducted a sustainability survey with its elemental stakeholders including but not limited to employees, suppliers and customers. They were invited to rate the materiality of various ESG topics to PuraPharm's long-term business development. A total of 129 responses were received, in which 82 were from the employees and 47 were collected from suppliers and customers. Based on the results of the survey, a materiality matrix was created to identify the most material ESG topics to the Group. As identified by the matrix, product quality assurance and compliance with relevant environmental laws and regulations were selected as the most concerned social and environmental topics to the business respectively.



6. ESTABLISH A SUSTAINABLE VALUE CHAIN

PuraPharm aims to be the most admired herbal medicine company by leading the modernisation of traditional medicine through innovation and pioneering research, while offering effective, safe and reliable products. Since the foundation in 1998, the Group is dedicated to developing and promoting traditional Chinese medicine ("TCM") from raw material selection to distribution.

6.1. Sustainable supply chains

6.1.1. Raw herb selection and management

Given the importance of raw herbs to our product quality, the Group strives to create a sustainable production cycle to maintain the stability of raw material supply. In effort to protect herb species, the Group has collaborated with the top research institutes to establish National Research Centre of Medicinal Plants and Seed Breed in Guizhou province. With the application of the advanced biotechnology, the research centre has successfully conserved 45 species through species cloning, breeding and planting. Apart from biodiversity conservation, the Group executes waste management at the fields by collecting and converting the herb residues from the manufacturing process to maintain a circular economy.

6.1.2. Sustainable procurement

In addition to raw materials, PuraPharm recognises the importance of stability at a product manufacturing supply chain. Therefore, we have established comprehensive policies and implemented corresponding measures to manage the supply chain.

The Group has instituted a procurement guideline for the procurement team to assess the suitability and capability of the potential and existing suppliers based on their experience, operation scale and plantation site. The Group purchased most of the herbs directly from the origins to control the quality, safety and freshness of the raw materials. To further ensure the quality of the raw materials and suppliers, the Group appointed the quality assurance team to perform regular site visits to the suppliers' plantation sites. If the supplier failed to meet the Group's standard, improvement plans will be suggested and a response within 30 days will be required from the team. After the designated timeframe, the team would conduct another on-site audit to review the enhancement of the suppliers. If there is no significant corrective measure taken, the Group would consider terminating the contract.

Anti-corruption policy

The Group also places high regard on suppliers' integrity and ethical behaviour to maintain a high standard of business ethics. To embody our commitment to ethical business, the Group has distributed the Declaration of Company Code of Conduct to its suppliers during the reporting period. The declaration stated that staff members were prohibited from soliciting or accepting any illegal advantage from any entities.

Besides, the Group has Anti-Corruption Management System and Code of Conduct to encourage suppliers, employees and other stakeholders to report any suspicious misconduct directly and anonymously through the whistle-blowing channel. Internal Audit Department will start the investigation. Where any staff member is confirmed of breaching the regulation or having committed corruption or other criminal offences, the Group will report the cases to the authority where the offence took place.

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

Apart from capability, quality and integrity of the suppliers, the procurement team considers sustainability performance during the selection and assessment process. The Group requires all suppliers to comply with all relevant environmental and social laws and regulations. In order to further integrate sustainability into PuraPharm's operations, the Group is developing a sustainable procurement policy to pursue sustainable sourcing and contribute to the society and the environment.

Number of suppliers by geographical region

Geographical region	Number of suppliers
China	137
Hong Kong	28
Others	2

6.2. Sustainable products

As a trusted brand with wide range of herbal products, PuraPharm pledges to develop new products and manage the product quality.

6.2.1. Quality assurance

Delivering professional, quality, safe and reliable herbal product is PuraPharm's adherence. The Group endeavours to convert the sustainable and quality raw materials into diverse product series, such as Nong's® Concentrated Chinese Medicine Granules and health products. To maintain TCM efficacy, PuraPharm has designed its own manufacturing facilities and adopted advanced technologies and testing technique in the production process.

In addition to the facilities, the Group places great emphasis on the product quality, and thus has strict quality control systems and systematic standard operating procedures in place. All batches of products must go through multiple tests before final packaging. Quality control team conducts safety tests on the product in the in-house testing laboratory to ensure all products fulfil and even exceed the international standards. The testing laboratory is certified by the China National Accreditation Service for Conformity Assessment (CNAS) in accordance with the ISO 17025:2005 Testing and calibration laboratories. With the latest testing technologies and equipment, the products are tested for the heavy metal, toxic elements, microbe and pesticide residue level through utilizing the latest testing technologies and equipment such as DNA fingerprinting in plants, Fourier Transform Infrared Spectroscopy (FTIR) and Ultra-High-Performance Liquid Chromatography (UPLC) before the release of the products to the market, thereby guaranteeing their reliability and safety. With the commitment to healthy, safe and reliable products, the Group established a quality control system and standard operating procedures which are strictly compliant with the Good Manufacturing Practise ("GMP") standards of the PRC's National Medical Products Administration ("NMPA"), Australia's Therapeutic Goods Administration ("TGA"), and the United States Pharmacopeia Convention ("USP").

6.2.2. Product labelling and reliability

Before distribution to the public, the Group considers the product labelling and marketing carefully. It is not only a tool to help the products to stand out in the market but also a provision of factual information to the customers and the authorities. Therefore, the Group inspect on the authenticity and comprehensiveness of product labelling to eliminate any false or misleading messages and comply with corresponding laws and regulations such as Trade Descriptions Ordinance. In compliance with Chinese Medicines Regulation, the information of the medicine (e.g., medication instructions, manufacturing date, expiry date and ingredients, etc.) were clearly labelled on the packages of the products.

6.2.3. Product recall & complaint handling procedures

PuraPharm sees customers' feedback as an improvement opportunity. Thus, the Group has established various channels to collect their views and opinion on its products and services, and a standardised complaint handling procedure to take care of all customer complaints in a timely and professional manner. In case of complaint received, the relevant department(s) would conduct investigations and suggest solutions. Depending on the severity of the issue, the department would recall the corresponding products according to the Standard Operation Procedure of Product Recall.

With the stringent quality assurance process, the Group was not aware of any significant products or service-related complaints or did not initiate product recall for safety and health reasons.

6.2.4. Customer privacy and data protection

As a responsible corporate, PuraPharm believes customer privacy protection is not only a compliance-based work, but also an opportunity to build trust with customers. Therefore, the Group strives to protect customer and clinic patients' confidential information. As stated in the internal guidelines, our employees are required to handle the customers' personal information in accordance with the standard procedure to avoid data breaches.

6.2.5. Safeguard intellectual property rights

PuraPharm is committed to safeguarding the intellectual property rights and the confidentiality of the use of resources at our business development. The Group applies and possess patents to protect its unique manufacturing technologies, prescriptions and innovations. In terms of brand protection, the Group registers various trademarks such as Oncozac® and PuraGold® to avoid an abuse of the product or brand names. In addition to the shield from patent and trademark law, employees are playing a key role in safeguarding intellectual properties of the Group. All product development staff is required to sign a "Non-disclosure Agreement" to keep all sensitive information confidential.

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

7. SHAPING A GREEN FUTURE

7.1. Climate change

Recognising the significance of climate change, PuraPharm has identified climate physical risk as one of the operational risks to the Group throughout the risk assessment process. The Group strives to reduce climate impact by enhancing its operational efficiency. Aligning to the carbon neutrality targets of the PRC and Hong Kong, the Group is developing its first climate change policy to outline our commitment to managing climate impacts across its operation.

As the primary contribution of the carbon emission is Scope 2 emission arising from electricity consumption which was used to support the manufacturing equipment and lighting fixtures of office, factories and clinics. To enhance energy efficiency and reduce subsequent carbon emissions, the Group has implemented the mitigating measures as below:

Climate change mitigation measures

Factories

- Implemented the Japanese 7S management framework in the factory for energy saving
- Improved the production process to shorten the machine time in the drying process
- Installed Modified Mechanical Vapor Recompression ("MVR") system reduce the electricity, water, and steam consumption
- Implemented a "10-days work, 3-days rest" policy to shut down all the equipment during 3 resting days
- Installed electric meters to monitor the electricity consumption in factories as a way to identify any abnormality
- Installed steam ejection pumps for waste heat collection and re-use

Office

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

Energy consumption (Note 1)

	Unit	2020	2019 (Note 2)
Total Electricity Consumption	MWh	10,099	10,890
Total Natural Gas Consumption	m^3	1,734,584	2,011,339
Total Coal Consumption	tonnes	20	40
Total Energy Consumption	GJ	105,035	121,967
Total Energy Intensity	GJ / million revenue	174.53	174.68

Note 1: As the production of the products of 2020 was relatively lower than 2019, the energy consumption was lower than the last reporting period.

Note 2: The Group has upgraded the energy calculation system to improve the accuracy and comparability of environmental performance in accordance with HKEx's "How to prepare an ESG Report".

Greenhouse gas (GHG) emissions (Note 1, 2)

	Unit	2020	2019 (Note 3)
Direct GHG emissions (Scope 1)	tons of CO_2 equivalent (tCO_2e)	3,843	4,666
Indirect GHG emissions (Scope 2)	tCO_2e	8,365	8,986
Total GHG	tCO_2e	12,208	13,652
Total GHG emissions intensity	tCO_2e / million revenue	20.29	19.55

Note 1: Calculation standards and methodologies for carbon emissions: Carbon emissions are calculated using "Exchange's guidance materials on ESG - Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEX. The sources of published emission factors for the disclosure of carbon emissions are:

- Sustainability reports of the local utility companies (Hong Kong Electric and CLP)
- "Exchange's guidance materials on ESG - Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEX
- Greenhouse Gas Protocol's "GHG Protocol Tool For Energy Consumption in China"

Note 2: As the production of the products of 2020 was relatively lower than 2019, the greenhouse gas emission was lower than the last reporting period.

Note 3: The Group has upgraded the Scope 2 GHG emission calculation system to improve the accuracy and comparability of environmental performance in accordance with HKEx's "How to prepare an ESG Report".

7.2. Water & wastewater management

The water consumption of the Group was mainly contributed by the product manufacturing, equipment cooling and daily cleaning at factories and offices. Although the Group has no difficulties in sourcing water, we endeavour to minimise the water pollution and enhance the efficiency through the following actions:

Water consumption (Note 1)

	Unit	2020	2019
Total water consumed	m^3	166,277	208,052
Total water intensity	m^3 / million revenue	276.30	297.97

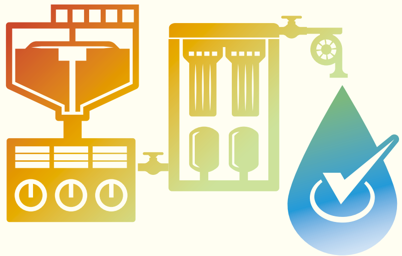
Note 1: As the production of the products of 2020 was relatively lower than 2019, the water consumption was lower than the last reporting period.

Water efficiency actions

Water Consumption

- Implemented the Japanese7S management framework in the factory for water saving
- Collected water vapor generated by the equipment in the production process for cleaning use
- Replaced Freon cooling systems with water curtain cooling system
- Applied water cooling system for equipment, such as heat exchanger and vacuum pump to ensure water was used and recycled at 100%
- Installed irrigation sprinkler to control and save water
- Used river water for irrigation

Wastewater management



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

7.3. Waste management

Given the nature of a Chinese Medicine manufacturer and clinical service provider, the Group inevitably creates a certain amount of hazardous and non-hazardous waste during the production process, such as acupuncture needles used in clinics and chemicals used in testing laboratories. To minimise the potential impacts of the hazardous waste to the environment, the Group has stipulated hazardous waste handling guidelines. Employees are responsible to segregate and store the hazardous waste properly prior to the arrival of the licensed waste collectors. Additionally, the Group has implemented the following initiatives to reduce disposal of non-hazardous waste:

Waste management initiatives

- Recycled around 3,554 tonnes herbal residue to organic fertilisers
- Sorted and recycled the packaging materials in the production process, such as cartons, plastic bags, plastic bottles, and iron wire
- Used biodegradable packaging materials
- Removed all outer carton boxes in shipping which saved a total of 14,797 outer carton boxes
- Launched a campaign for waste classification

Waste management (Note 1)

	Unit	2020	2019
Non-hazardous			
Herbal residues	tonne	3,554	3,958
General refuse	tonne	137	99
Packaging materials	tonne	325	378
Recycled waste	tonne	20	43
Non-hazardous waste intensity (Note 2)	tonne / million revenue	6.13	5.81
Hazardous waste			
Acupuncture waste	kg	59	46
Hazardous liquid waste	L	3,779	4,549
Hazardous solid waste	tonne	1	1
Hazardous waste intensity	L / million revenue	6.28	6.52

Note 1: As the production of the products of 2020 was relatively lower than 2019, the total waste amount was lower than the last reporting period.

Note 2: Non-hazardous waste intensity covers herbal residues and general refuse only.

8. BUILDING A TALENTED TEAM

Human resources are one of the most valuable assets of PuraPharm. As such, the Group is committed to building a professional and harmonious team meanwhile protecting, supporting and cultivating the team.

8.1. Attracting and retaining talents

With an aim to build a harmonious team, the Group is dedicated to creating a fair, diverse and friendly working environment. Adhering to the principle of fairness, the Group assesses the candidates by their experience, capability and qualification, regardless of their gender, age, religion or other irrelevant social factors during the recruitment process. Also, the Human Resources Department verifies the candidates' identity and working permit to prevent child labour and forced labour.

Creating an engaging workforce, the Group offers competitive remuneration packages and fringe benefits such as special leaves, medical insurance and employee discount to its employees, and review the welfare policies and packages regularly. The Group also advocates work-life balance and inclusive culture. In this regard, the Group arranges regular staff activities to strengthen the cross-team communication and employees' sense of belonging.

As at the end of the reporting period, the Group had a total of 656 employees across Hong Kong and the PRC. The breakdown of the workforce by different categories were shown as below:

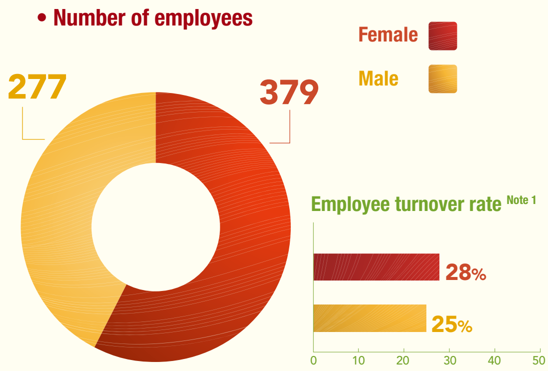
Annual Dinner

Team Building Activity

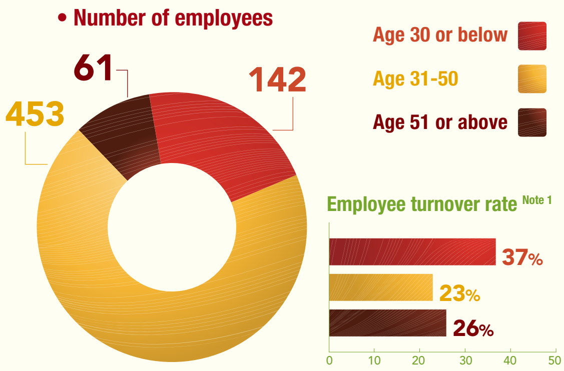
Birthday Party

Employment Breakdown

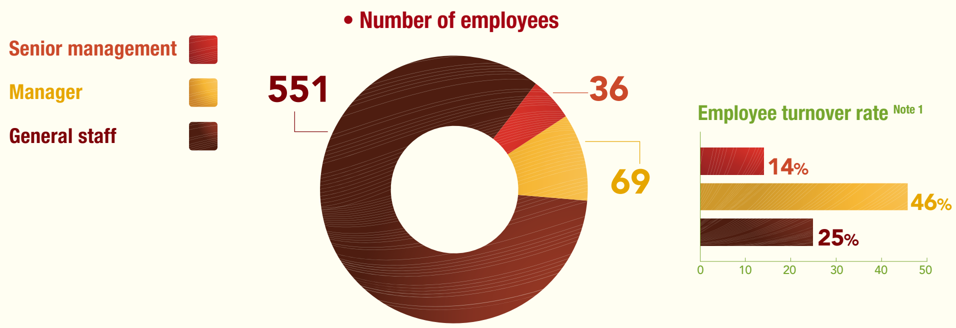
Breakdown by Gender



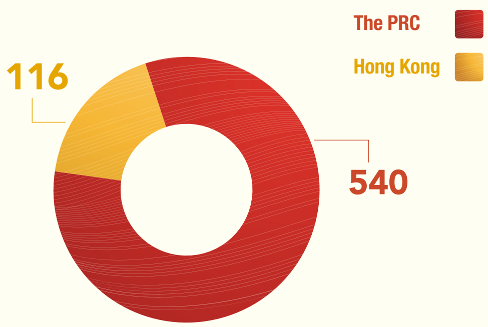
Breakdown by Age Group



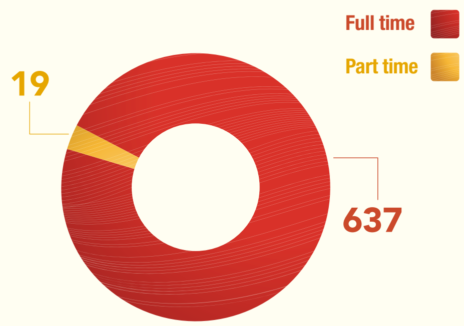
Breakdown by Employee Category



Breakdown by Geographical Location



Breakdown by Employment Type



Note 1: The calculation of turnover rate is shown as below:
Turnover rate = L(x) / E(x) * 100%
L(x) = Employees leaving employment during the reporting period
E(x) = Average number of employees during the reporting period

8.2. Protecting our staff

In order to protect the team, the Group has developed a number of safety policies and implemented corresponding measures to mitigate and diversify the occupational safety risk. The Group provides safety training and standard of procedure to maintain the safety awareness of the staff. In terms of physical protection, the Group requires the frontline employees to wear personal protective equipment at work and provide free annual health check to them. To ensure all the measures are well-implemented, the Group has assigned Health and Safety Team to conduct regular on-site inspections in the manufacturing facilities.

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

COVID-19 measures

Amidst the outbreak of COVID-19 pandemic, PuraPharm has been dedicated to safeguarding its employees and the community. In order to control the spread of virus and prevent infection, the Group has implemented a number of measures as below:

- Provided surgical masks and other pandemic necessities to its staff
- Arranged mass procurement of reliable pandemic necessities for its staff and their families
- Implemented flexible work arrangements including home office and flexible working hours policies according to the pandemic severity of the working locations
- Sponsored staff for the COVID-19 testing fees
- Proliferated and intensified the disinfection and cleaning schedule of the factories

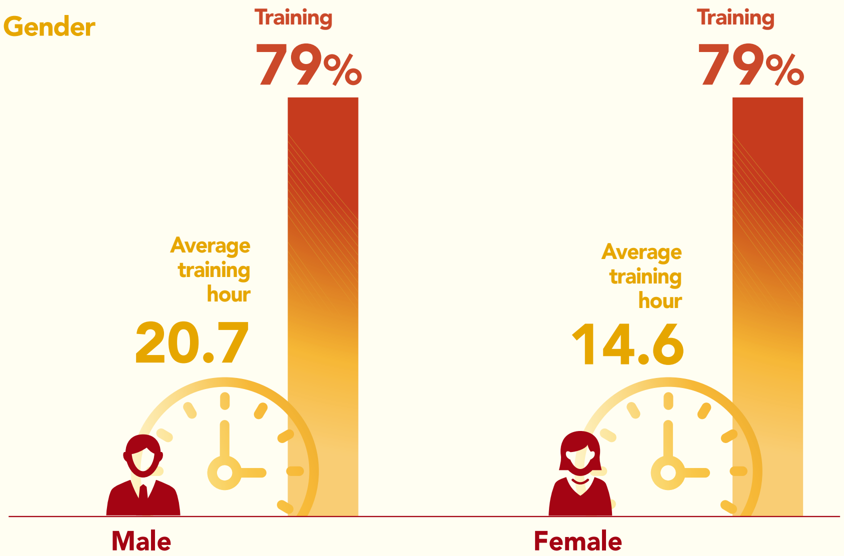
8.3. Nurturing our people

Further from occupational health and safety, the Group values the growth and development of the employees. In view of this, the Group has developed a training policy and offered specialised training programmes to its team based on their job nature and personal interest. For instance, the Group offers GMP trainings to quality assurance and production team, and provide product training to sales and marketing team. In addition to internal training, the Group encourages its staff to learn continuously by providing subsidies for external trainings. Human Resources Department conducts annual performance assessments on every employees and review training programmes every year.

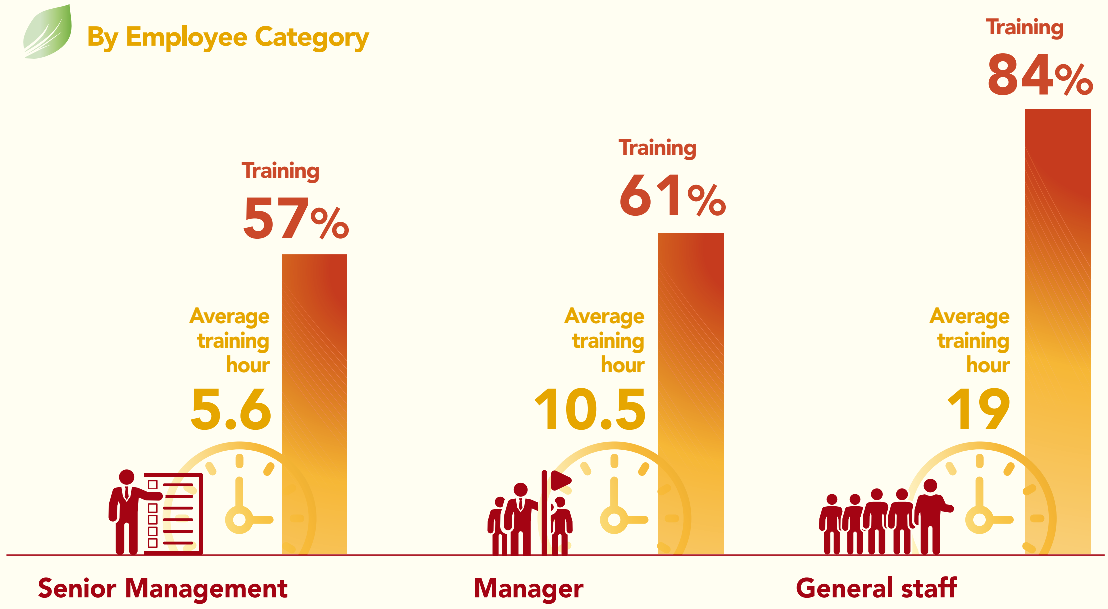
During the reporting period, the Group provided a total of 11,076 training hours to its employees and the detail of the trainings is shown as below:

Training and development

By Gender



By Employee Category



Internal Training

9. CONTRIBUTING TO THE COMMUNITY

Driving to the Group's mission on humanity's quest for longer, healthier and happier lives, PuraPharm has a Community Investment Policy in place to fulfil its commitment to the community. Stipulated in the policy, the Group is committed to creating positive impacts in the following areas:

- Support health and wellness across local and overseas communities, hospital groups, healthcare organizations and educational institutions.
- Facilitate the local community to gain a better understanding of Chines medicine.
- Support local students to thrive their education and career development in the Chinese medical field.

Considering the unprecedent global circumstance in 2020, PuraPharm has been relentlessly contributing to the community. The highlight of the Group community investment in the reporting year is shown as below:

COMMUNITY ACTIVITIES

Fighting against COVID-19 pandemic

During the COVID-19 pandemic, the Group was authorized by Guangxi Zhuang Autonomous Region Food and Drug Administration to manufacture the "Qi Wei Tang" granules, "Qing Fei Pai Du Tang" granules and "Kang Fu Yi Hao Fang" granules on behalf of Ruikang Hospital Affiliated to Guangxi University of Chinese Medicine. These granules were used for preventing COVID-19 and the treatment and recovery of COVID-19 patients respectively. According to a report by the People's Daily, "Qing Fei Pai Du Tang" was listed as the first choice of Chinese medical treatment of COVID-19 and its total efficacy rate in the treatment of COVID-19 patients is over 90%.

Besides, to alleviate the impacts of the COVID-19 pandemic to the community, the Group sought to help the frontline medical servants, the disadvantaged group and the social service providers through donating TCM prescription to the hospitals, non-profit organisations, and providing TCM prescription sponsorship for a donation booth.

Support public health and wellness with NGOs

PuraPharm has been continuously supporting TWGHs and its work in medical services and education. In addition to donation, the Group also encourages its staff members and clients to support by placing donation box in Nong's® clinics. In recognition of the enthusiasms, the Group has received Merit Corporates Award in TWGHs Flag Day.

Additionally, the Group also supported and sponsored other NGOs' community activities such as Yan Oi Tong Charity Raffle Ticket during the reporting period.

COMMUNITY ACTIVITIES

Promote Chinese medicine to the local and overseas communities

With an aim to facilitate the communities to gain better understanding of Chinese medicine, the Group provided free medical consultation services to the public. Also, the Group donated CCMG to overseas clinics to help the local unprivileged people with an affordable medication.

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

The Group understands students are the future pillars of the industry as well as the society. The Group is dedicated to bolstering them to thrive at their education and future career. During the reporting period, the Group has organised site visit to Nong's® Clinic in Nanning for medical students to take a glimpse into the industry

10. HARVESTING ACHIEVEMENT

In testament to the collective efforts of the employees and support of the business partners, PuraPharm has achieved numerous recognitions and awards during the reporting years.

Name	Issuer
Firestarters Platinum Award 2019	Invotech
Caring Company	The Hong Kong Council of Social Service
Guizhou Outstanding Private Enterprise in Poverty Alleviation Action	Guizhou Province Federation of Industry and Commerce and Guizhou Province Office of Poverty Alleviation and Development
Guizhou Province Top Poverty Alleviation Enterprise	Guizhou Province Office of Poverty Alleviation and Development
Qiandongnan Prefecture Outstanding Poverty Alleviation Enterprise	Qiandongnan Prefecture People's Government
2020 Guangxi Top 100 Technology Enterprise	Guangxi Technology Enterprise Association

11. LOOKING AHEAD

Amid the challenges of COVID last year, PuraPharm has been standing with its stakeholders and supporting them with quality herbal products. The Group will continue to provide healthy products to the society meanwhile promoting the sustainable development of the business. The Group is looking forward to a healthy and sustainable environment and bringing longer, healthier and happier lives for humanity.

12. ESG INDEX

Aspect	KPI	Description	Statement/Section	Page No.
SUBJECT AREA (A) ENVIRONMENT				
A1: EMISSIONS				
A1	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 7 Shaping a green future (b) The Group did not aware any material non-compliance against relevant laws and regulation such as Air Pollution Control Ordinance of Hong Kong and Environmental Protection Law of the PRC during the reporting period.	55
	A1.1	The types of emissions and respective emissions data.	7.1 Climate change As the primary energy source of the Group's operation is purchased electricity, air pollutant emission such as NOx and SOx is not material to the Group.	56
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.1 Climate change	56
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.3 Waste management	59
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.3 Waste management	59
	A1.5	Description of measures to mitigate emissions and results achieved.	7.1 Climate change	56
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	7.3 Waste management	59

Aspect	KPI	Description	Statement/Section	Page No.
A2: USE OF RESOURCES				
A2	*General disclosure*	Policies	7 Shaping a green future	55
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	7.1 Climate change	56
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	7.2 Water & wastewater management	58
	A2.3	Description of energy use efficiency initiatives and results achieved.	7.1 Climate change	56
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	7.2 Water & wastewater management	58
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	7.3 Waste management	59
A3: THE ENVIRONMENT AND NATURAL RESOURCES				
A3	*General disclosure*	Policies	7 Shaping a green future	55
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	7 Shaping a green future	55
SUBJECT AREA (B) SOCIAL				
B1: EMPLOYMENT				
B1	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 8 Building a talented team (b) The Group did not aware any material non-compliance against relevant laws and regulation such as Employment Ordinance of Hong Kong and Labour Law of the PRC during the reporting period.	61
	B1.1	Total workforce by gender, employment type, age group and geographical region.	8.1 Attracting and retaining talents	61
	B1.2	Employee turnover rate by gender, age group and geographical region.	8.1 Attracting and retaining talents	61

Aspect	KPI	Description	Statement/Section	Page No.
B2: HEALTH AND SAFETY				
B2	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 8.2 Protecting our staff (b) The Group did not aware any material non-compliance against relevant laws and regulation such as Occupational Safety and Health of Hong Kong and Production Safety Law of the PRC during the reporting period.	63
	B2.1	Number and rate of work-related fatalities.	(a) 8.2 Protecting our staff (b) During the reporting period, there was a non-work-related fatality among the workforce.	63
	B2.2	Lost days due to work injury.	375	
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	8.2 Protecting our staff	63
B3: DEVELOPMENT AND TRAINING				
B3	*General disclosure*	Policies	8.3 Nurturing our people	63
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	8.3 Nurturing our people	63
	B3.2	The average training hours completed per employee by gender and employee category.	8.3 Nurturing our people	63
B4: LABOUR STANDARDS				
B4	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 8 Building a talented team (b) The Group did not aware any material non-compliance against relevant laws and regulation such as Employment Ordinance of Hong Kong and Labour Law of the PRC during the reporting period.	61
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	8.1 Attracting and retaining talents	61
	B4.2	Description of steps taken to eliminate such practices when discovered.	8.1 Attracting and retaining talents	61
B5: SUPPLY CHAIN MANAGEMENT				
B5	*General disclosure*	Policies	6.1 Sustainable supply chains	53
	B5.1	Number of suppliers by geographical region.	6.1 Sustainable supply chains	53
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	6.1 Sustainable supply chains	53

Aspect	KPI	Description	Statement/Section	Page No.
B6: PRODUCT RESPONSIBILITY				
B6	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 6.2 Sustainable products (b) The Group did not aware any material non-compliance against relevant laws and regulation such as Chinese Medicine Ordinance of Hong Kong and Advertising Law of the PRC during the reporting period.	54
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	6.2 Sustainable products	54
	B6.2	Number of products and service related complaints received and how they are dealt with.	6.2 Sustainable products	54
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	6.2 Sustainable products	54
	B6.4	Description of quality assurance process and recall procedures.	6.2 Sustainable products	54
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	6.2 Sustainable products	54
B7: ANTI-CORRUPTION				
B7	*General disclosure*	Information on: (a) the policies; and (b) compliance	(a) 6.1 Sustainable supply chains (b) The Group did not aware any material non-compliance against relevant laws and regulation such as Prevention of Bribery Ordinance of Hong Kong and Criminal Law of the PRC during the reporting period.	53
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	6.1 Sustainable supply chains	53
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	6.1 Sustainable supply chains	53
B8: COMMUNITY INVESTMENT				
B8	*General disclosure*	Policies	9 Contributing to the community	65
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	9 Contributing to the community	65
	B8.2	Resources contributed (e.g. money or time) to the focus area.	Not disclosed	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CORPORATE GOVERNANCE REPORT


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CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2020.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). During the year ended 31 December 2020 (the "Review Period"), save as disclosed below, the Company has complied with all applicable code provisions set out in the Code.

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

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

A. The Board

1. Responsibilities

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

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

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group and the Company for the year ended 31 December 2020.

2. **Delegation of Management Function**

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

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

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

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

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

Pursuant to provision B.1.5 of the Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2020 is set out below:

Remuneration band (HK$)	**Number of Individual**
Nil–1,000,000	1
1,000,001–1,500,000	2
1,500,001–3,000,000	1

Details of the remuneration of each Director for the year ended 31 December 2020 are set out in note 8 to the consolidated financial statements in this annual report.

3. Board Composition

As at 31 December 2020, the Board consisted of eleven Directors, including five Executive Directors, two Non-executive Directors and four independent non-executive Directors. Biographies of the Directors are set out on pages 8 to 12 of this annual report.

During the year 31 December 2020, the Board comprised the following Directors:

Executive Directors	Mr. Chan Yu Ling, Abraham *(Chairman and Chief Executive Officer)* Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)* Ms. Man Yee Wai, Viola Mr. Cheong Shiu Keong (appointed as Non-Executive Director on 24 March 2020 and re-designated as Executive Director on 1 September 2020) Dr. Norimoto Hisayoshi (appointed on 17 November 2020)
Non-executive Directors	Mr. Chow, Stanley Mr. Chan Kin Man, Eddie (Re-designated as Non-Executive Director on 1 September 2020)
Independent non-executive Directors	Dr. Chan Kin Keung, Eugene Mr. Ho Kwok Wah, George Dr. Leung Lim Kin, Simon Prof. Tsui Lap Chee

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

During the Review Period, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board and at least one independent non-executive Director possesses appropriate professional qualifications, or accounting or related financial management expertise which is in compliance with Rules 3.10 and 3.10A of the Listing Rules.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. Upon the recommendation of the Nomination Committee of the Company, the Company considers all independent non-executive Directors to be independent in accordance with the independence requirements set out in the Listing Rules.

4. Appointment and Re-election of Directors

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

Each of the Executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the independent non-executive Directors and non-executive Director has signed an appointment letter with the Company for a term of three years unless terminated by a written notice not less than 30 days' prior to the termination serviced by either party on the other. The appointments are subject to the provisions of retirement and rotation of directors under the Articles.

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

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

5. Induction and Continuing Development for Directors

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

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

For the year ended 31 December 2020, each Director has attended training sessions arranged by the Group's legal advisers relating to corporate governance and continuing obligations of listed companies and its Directors.

6. Directors Liability Insurance

The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2020, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing their duties. The Company estimates that in the reasonably foreseeable future, there is little risk that there would be any event for which any Director shall take responsibility. Notwithstanding, the Company has arranged for appropriate directors and officers liability insurance in respect of legal action against the Directors.

7. Board Meetings and General Meetings

The Board discusses the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. The attendance records of each Director at the Board meetings and the annual general meeting (whether in person or by means of electronic communication) held during the year ended 31 December 2020 are set out below:

Name of Director	Board meeting	Annual general meeting
Mr. Chan Yu Ling, Abraham	9/9	1/1
Dr. Tsoi Kam Biu, Alvin	9/9	1/1
Ms. Man Yee Wai, Viola	9/9	1/1
Mr. Cheong Shin Keong *(Note 1)*	5/9	1/1
Dr. Norimoto Hisayoshi *(Note 2)*	0/9	0/1
Mr. Chan Kin Man, Eddie	9/9	1/1
Mr. Chow, Stanley	9/9	1/1
Dr. Chan Kin Keung, Eugene	9/9	1/1
Dr. Leung Lim Kin, Simon	8/9	1/1
Mr. Ho Kwok Wah, George	9/9	1/1
Prof. Tsui Lap Chee	9/9	1/1

Note 1: Five Board meetings were held since the appointment of Mr. Cheong Shin Keong on 24 March 2020.

Note 2: No Board meeting was held since the appointment of Dr, Norimoto Hisayoshi on 17 November 2020.

Practices and conduct of meetings

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

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

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

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

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

B. Board Committees

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

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

1. Remuneration Committee

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

Dr. Chan Kin Keung, Eugene *(Chairman), Independent non-executive Director*
Dr. Tsoi Kam Biu, Alvin, *Executive Director*
Prof. Tsui Lap Chee, *Independent non-executive Director*

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

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

Committee members	Meeting attended/ Total
Dr. Chan Kin Keung, Eugene *(Chairman)*	4/4
Dr. Tsoi Kam Biu, Alvin	4/4
Prof. Tsui Lap Chee	4/4

2. Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the Code. The Audit Committee comprises three independent non-executive members, and all are independent non-executive Directors:

Mr. Ho Kwok Wah, George *(Chairman), Independent non-executive Director*
Dr. Chan Kin Keung, Eugene, *Independent non-executive Director*
Dr. Leung Lim Kin, Simon, *Independent non-executive Director*

The chairman of the Audit Committee, Mr. Ho Kwok Wah, George, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary roles and functions of the Audit Committee include, but not limited to: (i) reviewing and monitoring the relationship of the external auditor and the Group, particularly the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard; (ii) reviewing the Company's financial information; (iii) reviewing the financial controls, internal control and risk management systems of the Group; and (iv) reviewing financial and accounting policies and practices of the Group.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management. The Audit Committee considers that the annual financial results for the year ended 31 December 2020 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

The attendance records of the Audit Committee held during the Review Period are set out below:

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

3. Nomination Committee

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

Mr. Chan Yu Ling, Abraham *(Chairman), Executive Director*
Dr. Leung Lim Kin, Simon, *Independent non-executive Director*
Prof. Tsui Lap Chee, *Independent non-executive Director*

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

During the Review Period, the Nomination Committee conducted the annual review of the structure, size and composition of the Board; assessed independence of Independent Non-executive Directors; and reviewed the Board Diversity Policy. The attendance records of the Nomination Committee meetings held during the Review Period are set out below:

Committee members	Meeting attended/ Total
Mr. Chan Yu Ling, Abraham *(Chairman)*	3/3
Dr. Leung Lim Kin, Simon	3/3
Prof Tsui Lap Chee	3/3

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

Nomination Policy

The Company has adopted a nomination policy (the "Nomination Policy") which sets out the approach and procedures the Board adopts for the nomination and selection of Directors of the Company, including the appointment of additional Directors, replacement of Directors, and re-election of Directors. The Nomination Committee has been delegated with the overall responsibility for implementation, monitoring and periodic review of the policy, and the summary of which is set out below:

- review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- assess the independence of Independent Non-executive Directors having regard to the requirements under the Listing Rules; and

- make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors in particular the Chairman and Chief Executive Officer of the Company.

Nomination Criteria

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

- the candidate's character and integrity;

- the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the board diversity policy that are relevant to the Company's business and corporate strategy;

- any measurable objectives adopted for achieving diversity on the Board;

- for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;

- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

- willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and

- such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

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

Appointment of New and Replacement Directors

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

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

Re-election of Directors and Nomination from Shareholders

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

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

Summary of the board diversity policy

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

4. Scientific Advisory Committee

The Company has established the Scientific Advisory Committee with written terms of reference in June 2015. As at 31 December 2020, none of the members of Scientific Advisory Committee are Director of the Company:

Prof. Bruce Robinson *(Chairman)*
Prof. Rudolf Bauer
Prof. Piu Chan
Prof. Liang Song Ming

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

During the Review Period, one meeting was held by the Scientific Advisory Committee and all members attended the meeting. The Board is looking for an appropriate candidate to fill the casual vacancy of the member of the Scientific Advisory Committee.

D. Model Code for Securities

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the required standard of dealing as set out in the Model Code during the year ended 31 December 2020 and the Board was of the view that the Model Code has been fully complied with during the year ended 31 December 2020.

E. External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 108 to 113.

For the year ended 31 December 2020, the fees paid/payable to Ernst & Young for the audit service were HK$2,250,000.

Fees paid/payable to Ernst & Young for non-audit services provided to the Group for the year ended 31 December 2020 were HK$650,000. The non-audit services were mainly for reviewing of the Group's interim results.

Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements for the financial year, which give a true and fair view of the financial position of the Company and the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2020, the Directors have selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared disclosure of the financial position of the Group with reasonable accuracy at any time.

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

F. Risk Management and Internal Controls

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing the effectiveness of the Group's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

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

The Group had the internal audit function, details of which are stated in the Risk Management Report in this annual report.

During the year ended 31 December 2020, the Audit Committee, which was delegated by the Board, has reviewed and evaluated the effectiveness of the risk management and internal control system of the Group. The review has covered the financial reporting process and risk management aspects of the Group. Such review shall be conducted annually. Upon the recommendation of the Audit Committee, the Board believes that the existing internal control system is adequate and effective.

For further information in relation to the risk management and internal control system of the Group's please refer to the risk management report in this annual report.

G. Investor Relations

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

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

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

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

During the year ended 31 December 2020, there was no change in the memorandum and articles of association of the Company. The latest version of the Articles is available on the websites of the Company and of the Stock Exchange.

H. Shareholder Rights

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

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

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

Address:	Suite 4002, Jardine House 1 Connaught Place, Central Hong Kong
Email:	info@purapharm.com
Tel:	(852) 2840 1840
Fax:	(852) 2840 0778

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

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

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

I. Company Secretary

Mr. Lau Ka Kuen was appointed by the Board as the company secretary of the Company with effect from 1 February 2018. All Directors have access to the advice and services of the company secretary of the Company to ensure the Board procedures, and all applicable law, rules and regulations, are followed. For the year ended 31 December 2020, Mr. Lau Ka Kuen had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

RISK MANAGEMENT REPORT

RISK MANAGEMENT REPORT

RISK GOVERNANCE

The Board has overall responsibility to the Group's risk management. The following highlights the key risk management measures and enhancements made by the Group during the year ended 31 December 2020:

- Management conducted annual Internal Control Self-Evaluation in 2020. Department heads confirmed that appropriate and effective internal control policies and procedures have been established and complied with.

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

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

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

- Continuous Disclosure and Communication Policy was adopted to provide Directors, members of the senior management and employees with guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing restrictions.

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

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

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

ENTERPRISE RISK MANAGEMENT FRAMEWORK

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

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

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

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

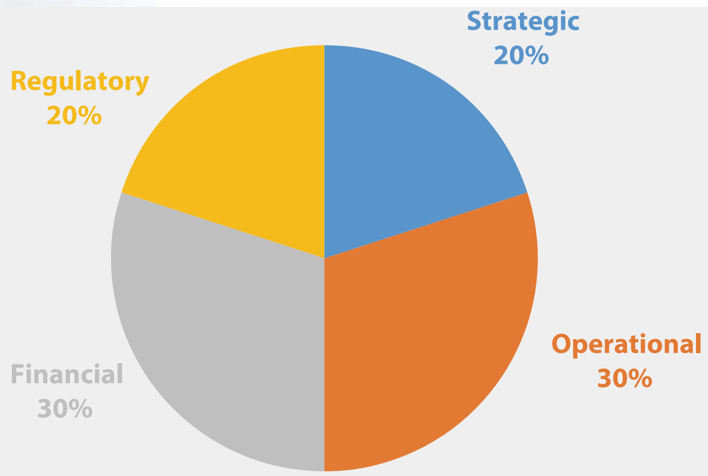
<u>Risk Monitoring</u>
Monitor risk mitigation measures implemented by risk owners.

SIGNIFICANT RISKS

In 2020, the Board conducted an annual Group-wide risk assessment project based on the Group's ERM framework to review identified risks and assess the risks might arise from its businesses. The identified risks are rated by a combination of likelihood and consequences after considering current mitigation measures implemented regarding a risk matrix to get overall ratings. All identified risks are then ranked by the overall rating. The overall risk ratings reflect the required management attention and risk treatment effort. In the Group Risk Report, 4 categories of major risk types were identified and are illustrated in the diagram below.

The Group's Key Risk Exposures:

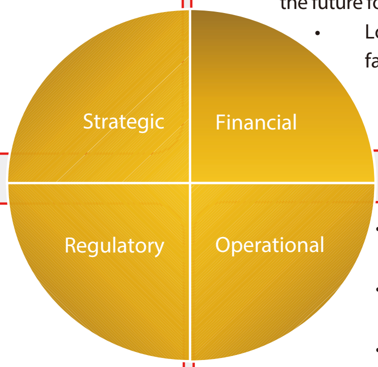
SIGNIFICANT RISKS



PuraPharm Key Risk Exposures:

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

- The large-scale and multi-country COVID-19 outbreak has worsen the global economic environments. The Group's sales and operating cash flow will be negatively impacted
- Risk of not being able to secure additional financing in the future for our operation or expansion plans
- Losses due to counterparties' failure to meet their settlement obligations



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

- Biosecurity and climate risk for the plantation base
- Shortage of raw herbs due to seasonal factors
- Change of market receptiveness of Chinese medicine products

Details of Key Risks Identified

Throughout the risk assessment process in 2020, the following are the material risks identified and their respective mitigation plan(s):

Category	Risk identified	Mitigation plan(s)
Financial	The large-scale and multi-country COVID-19 outbreak has worsen the global economic environments. The Group's sales and operating cash flow will be negatively impacted	• Implement stringent cost control and cash flow management • Minimise or slowdown investment and expansion plan to reserve the cash resources • Explore the business opportunities for healthcare products and online sales channel to offset the downside impact of the retail channel
Financial	Risk of not being able to secure additional financing in the future for our operation or expansion plans	• Control spending to preserve fund for future operation or expansion • Put more emphasis on working capital management
Financial	Losses due to counterparties' failure to meet their settlement obligations	• With guidelines to control approval of credit limit and credit terms
Strategic	Fail to implement business plan	• Continue monitoring the impact of market changes to the Group's plan
Strategic	Loss of revenue/market share	• Maintain good relationship with customers and deliver quality products timely • Commit substantial effort in promoting our brand and providing quality products
Regulatory	Changes in industry regulations impacting the Group, and PRC government may open the CCMG market, inducing more competitors	• Expand our market share by devoting more effort in developing new products and maintaining good relationship with our existing customers • Designated teams to monitor and handle compliance issues related to production and product licenses • Coordinate with regulators to minimise impact of changes to the Group
Regulatory	Risk of becoming a party to various litigation, legal disputes, claims or administrative proceedings arising in the ordinary course of business	• Purchase of different insurance policies to reduce our relevant monetary loss • Engage external lawyers to review our contracts for better protection
Operational	Biosecurity and climate risk for the plantation base	• Revamp the operation model of plantation business to increase high-value plants plantation with short harvest cycle • Consider purchasing agricultural insurance to transfer the risk • Assign experienced technicians to station in the plantation base in order to handle the biosecurity and climate matters timely
Operational	Shortage of raw herbs due to seasonal factors	• Good procurement and production planning in order to maintain sufficient inventory level
Operational	Change of market receptiveness of Chinese medicine products	• Continuously perform clinical studies or R&D projects on the effectiveness of Chinese medicine • Obtain various certificates for our products in order to raise public's confidence

REPORT OF THE DIRECTORS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REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the "Management Discussion and Analysis" set out on pages 38 to 47 of this annual report. This discussion forms part of this directors' report.

RESULTS

The Group's profit for the year ended 31 December 2020 and the Group's financial position as at that date are set out in the consolidated financial statements on pages 114 to 222.

COMPLIANCE WITH THE LAWS AND REGULATIONS

During the year ended 31 December 2020 and up to the date of this annual report, the Group in all material aspects has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year ended 31 December 2020 and up to the date of this annual report.

DIVIDEND POLICY

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

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

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

The Board resolved not to recommend the payment of final dividend for the year ended 31 December 2020 to the shareholders of the Company.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2015, after deduction of related issuance expenses, amounted to approximately HK$288.4 million (the "Net Proceeds"). As at 31 December 2020, the Group had utilised approximately HK$277.7 million of the Net Proceeds in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

Use	Total approximate amount of Net Proceeds (in HK$ million)	Approximate percentage of Net Proceeds	Approximate amount utilised as at 31 December 2020 (in HK$ million)	Approximate amount ulilized during the year (in HK$ million)	Approximate amount unutilised as at 31 December 2020 (in HK$ million)	Expected timeline for intended use
To expand manufacturing facilities and enhance existing production lines	86.5	30%	86.5	–	–	–
To establish new Nong's® Chinese medicine clinics in Hong Kong and the PRC	72.1	25%	72.1	–	–	–
To expand distribution network into new target cities in the PRC	57.7	20%	57.7	–	–	–
To fund the development and launch of two new proprietary Chinese medicine products	43.3	15%	32.6	2.1	10.7	by December 2021
Additional working capital of the Group	28.8	10%	28.8	–	–	–
	288.4	100%	277.7	2.1	10.7	

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

Among the remaining unutilised portion of the net proceeds, HK$7.2 million is allocated to the development of pharmaceutical products for treating irritable bowel syndrome, known as 仁術腸樂顆粒. On 8 October 2020, the Group has entered into an Asset Sale Agreement with BAGI Research Limited, a company indirectly and wholly-owned by Mr. Chan Yu Ling, Abraham, an executive director and controlling shareholder of the Company, to sell the relevant assets of such product development (the "Asset Disposal"). Upon completion of the Asset Disposal, the Group will re-allocate HK$7.2 million of such unused portion of the proceeds, as working capital of the Group's other research and development projects. On 25 March 2021, the Company announced that the long stop date of the Asset Disposal would be extended to 30 September 2021. For further information in relation to the Asset Disposal, please refer to the announcements of the Company dated 8 October 2020 and 25 March 2021.

NET PROCEEDS FROM THE RIGHTS ISSUE

The net proceeds raised from the Rights Issue after deducting the relevant expenses, was approximately HK$98 million. The table below sets out the proposed application and the actual usage of the net proceeds from the Rights Issue as at 31 December 2020 as follows:

Use	Approximate amount of net proceeds (in HK$ million)	Approximate percentage of net proceeds	Approximate amount utilized during the year ended 31 December 2020 (in HK$ million)	Approximate amount unutilized (in HK$ million)
Repayment of bank loan	41.0	41.8%	41.0	–
Marketing expenses of the Group China CCMG business	20.0	20.4%	20.0	–
Raw herbs procurement	20.0	20.4%	20.0	–
General working capital	17.0	17.4%	17.0	–
	98.0	100.0%	98.0	–

As at 31 December 2020, the net proceeds from the Rights Issue have been fully utilised according to the proposed application.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements, and an analysis of the Group's performance using financial key performance indicators is set out on page 224. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2020 are set out in note 30 to the consolidated financial statements.

THE RIGHTS ISSUE

On 3 January 2020, the Company announced a proposed Rights Issue to raise about HK$105 million before expenses by issuing 131,630,980 rights shares (the "Rights Share(s)"), on the basis of one Rights Share for every two existing Shares then held at the subscription price of HK$0.80 per Rights Share, representing a discount of approximately 37.5% to the closing price of HK$1.28 per share as quoted on the Stock Exchange on 30 December 2019, being the last full trading day of the share before the release of the announcement in relation to the Rights Issue. The Rights Issue was completed on 2 March 2020, and 131,630,980 Rights Shares were allotted and issued to the shareholders accordingly, which carried the aggregate nominal value of US$13,163,098. The gross proceeds raised from the Rights Issue was approximately HK$105 million and the net proceeds was approximately HK$98.0 million. The net Subscription Price, after deducting expenses and underwriting commission, was approximately HK$0.745 per Right Share.

The Board considered that the Rights Issue allowed the Group to strengthen its capital base without incurring debt financing cost, improve the financial position and provide additional financial resources for capturing suitable business expansion and investment opportunities when they arise.

For further information in relation to the Rights Issue, please refer to the announcement of the Company dated 3 January 2020, prospectus of the Company dated 7 February 2020, and the announcement of the Company dated 28 February 2020. For further information in relation to the use of proceeds from the Rights Issue, please refer to the paragraph headed "Net Proceeds from the Rights Issue" above in this annual report.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

Other than disclosed above, the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities throughout the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DISTRIBUTABLE RESERVES

At 31 December 2020, the Company's reserves available for distribution amounted to approximately HK$125,579,000.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2020, the Group made charitable contributions totaling HK$6,961,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, sales to the Group's five largest customers accounted for 20.6% (2019: 16.6%) of the total sales and sales to the largest customer included therein amounted to 5.4% (2019: 3.8%). Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year ended 31 December 2020 (2019: less than 30%).

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

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

For details of the Group's relationship with customers, suppliers and employees, please refer to the paragraph headed "stakeholder engagement" in the Environmental, Social and Governance Report set out in page 51 of this annual report.

DIRECTORS

The directors of the Company during the year ended 31 December 2020 were:

Chairman and Executive Director:

Mr. Chan Yu Ling, Abraham

Executive Directors:

Dr. Tsoi Kam Biu, Alvin
Ms. Man Yee Wai, Viola
Mr. Cheong Shin Keong (appointed as Non-Executive Director on 24 March 2020 and re-designated as Executive Director on 1 September 2020)
Dr. Norimoto Hisayoshi (appointed on 17 November 2020)

Non-executive Director:

Mr. Chow, Stanley
Mr. Chan Kin Man, Eddie (Re-designated as Non-Executive Director on 1 September 2020)

Independent non-executive Directors:

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

In accordance with articles 108 and 112 of the Company's articles of association, Dr. Tsoi Kam Biu, Alvin, Mr. Chan Kin Man, Eddie, Dr. Chan Kin Keung, Eugene, and Ms. Man Yee Wai, Viola and Dr. Norimoto Hisayoshi will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are appointed for periods of three years subject to his or her retirement and re-election at annual general meeting in accordance with the Company's Articles.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 8 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to directors' duties, responsibilities and performance, the results of the Group and recommendation from the remuneration committee. Details of the remuneration of the Directors and the five highest paid individuals of the Group for the year ended 31 December 2020 are set out in notes 8 and 9 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year ended 31 December 2020.

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

As at 31 December 2020, the Directors and chief executive of the Company had the following interests in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Nature of Interest	Number of Ordinary Shares held or interested[1]	Percentage of the Company's issued share capital
Mr. Chan Yu Ling, Abraham	Interest of controlled corporations	184,354,830 (L)[2][3][4]	46.68%
("Mr. Abraham Chan")	Beneficial owner	29,850,811 (L)	7.56%
	Interest of spouse	4,347,500 (L)[5]	1.10%
	Beneficiary of a trust	90,000 (L)[9]	0.02%
Ms. Man Yee Wai, Viola	Interest of a controlled corporation	77,349,750 (L)[6]	19.59%
("Ms. Viola Man")	Beneficial owner	4,302,500 (L)	1.09%
	Interest of spouse	136,945,891 (L)[7]	34.68%
	Beneficiary of a trust	45,000 (L)[9]	0.01%
Mr. Cheong Shin Keong	Beneficial owner	3,480,000 (L)	0.88%
	Beneficiary of a trust	1,000,000 (L)[9]	0.25%
Dr. Tsoi Kam Biu, Alvin	Beneficial owner	2,527,000 (L)	0.64%
	Beneficiary of a trust	45,000 (L)[9]	0.01%
Dr. Norimoto Hisayoshi	Beneficial owner	370,000 (L)	0.09%
Mr. Chan Kin Man, Eddie	Interest of controlled corporations	2,343,750 (L)[8]	0.59%
("Mr. Eddie Chan")	Beneficial owner	3,844,000 (L)	0.97%
	Beneficiary of a trust	6,000 (L)[9]	0.002%
Dr. Chan Kin Keung, Eugene	Beneficial owner	14,000 (L)	0.004%
	Beneficiary of a trust	6,000 (L)[9]	0.002%
Mr. Ho Kwok Wah, George	Beneficial owner	14,000 (L)	0.004%
	Beneficiary of a trust	6,000 (L)[9]	0.002%
Dr. Leung Lim Kin, Simon	Beneficial owner	14,000 (L)	0.004%
	Beneficiary of a trust	6,000 (L)[9]	0.002%
Prof. Tsui Lap Chee	Beneficial owner	14,000 (L)	0.004%
	Beneficiary of a trust	6,000 (L)[9]	0.002%

Notes:

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

2. Mr. Abraham Chan beneficially owns 50% of the issued share capital of Joint Partners Investments Limited ("Joint Partners"), which in turn wholly owns the entire issued capital of Purapharm Corporation Limited ("PuraPharm Corp"), a limited liability company incorporated in the British Virgin Islands on 5 May 1998. Purapharm Corp owns 77,349,750 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by PuraPharm Corp.

3. Mr. Abraham Chan beneficially owns the entire issued share capital of Fullgold Development Limited ("Fullgold Development"), which in turn owns 87,429,000 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Fullgold Development.

4. Mr. Abraham Chan beneficially owns the entire issued share capital of Gold Sparkle Limited ("Gold Sparkle"), which in turn owns 19,576,080 Shares. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Gold Sparkle.

5. Mr. Abraham Chan is the spouse of Ms. Viola Man. By virtue of the SFO, Mr. Abraham Chan is deemed to be interested in the Shares held by Ms. Viola Man.

6. Ms. Viola Man beneficially owns 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued capital of PuraPharm Corp. Purapharm Corp owns 77,349,750 Shares. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by PuraPharm Corp.

7. Ms. Viola Man is the spouse of Mr. Abraham Chan. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by Mr. Abraham Chan.

8. Mr. Eddie Chan wholly owns the entire issued share capital K.M. Chan & Co. Limited ("KM Chan"), which in turn owns 2,343,750 Shares, respectively. By virtue of the SFO, Mr. Eddie Chan is deemed to be interested in the Shares held by KM Chan.

9. These shares represent Shares granted to such directors pursuant to the Share Award Scheme, which are held on trust by the Share Award Scheme Trust until the Shares are vested. For further detail, please refer to the paragraph headed "Share Award Scheme" below.

Save as disclosed above, as at 31 December 2020, none of the Directors, chief executive of the Company and/or their respective associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2020, so far as was known to the Directors, the following entity (not being the Director or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of entity	Nature of Interest	Number of Shares held or interested[1]	Percentage of the Company's issued share capital
PuraPharm Corp	Beneficial owner	77,349,750 (L)	19.59%
Joint Partners	Interest of a controlled corporation	77,349,750 (L)[2]	19.59%
Fullgold Development	Beneficial owner	87,429,000 (L)	22.14%

Notes:

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

2. PuraPharm Corp is wholly owned by Joint Partners. By virtue of the SFO, Joint Partners is deemed to be interested in the Shares held by PuraPharm Corp.

Save as disclosed above, as at 31 December 2020, no person, other than a Director or chief executive of the Company, had registered an interest or short position in the Shares, underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

On 12 June 2015, the Share Option Scheme was adopted by the then Shareholders and will remain in force for 10 years after its adoption. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group's operations. Under the terms of the Share Option Scheme, the Board may, at its discretion, grant share options to, among others, any full-time employee and any Director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors.

The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share on the date of grant. Any share options granted under the Share Option Scheme shall lapse in any event not later than ten years from the date of grant. A nominal value of HK$1.00 is payable on acceptance of each grant of share options.

On 9 May 2019, 6,376,000 options were granted to four Directors and certain employees of the Company, entitling them to subscribe for a total of 6,376,000 shares at the exercise price of HK$2.4 per share.

On 24 July 2020, 16,124,000 options were granted to five directors and certain employees of the company, entitling them to subscribe for a total of 16,124,000 shares at the exercise price of HK$0.8 per share, conditional upon the grantees accepting the grant. Among the options resolved to grant, 4 employees did not accept the grant and out of the 16,124,000 options, 800,000 options were not granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

Details of the options granted under the Share Option Scheme is as follows:

Grantees	Grant date	Exercise price	Vesting date	As at 1 January 2020	Number of Shares issuable under Options granted during the year	Exercised during the year	Canceled/ lapsed during the year	Effect of Right Issue (note)	As at 31 December 2020
Directors	9 May 2019	HK$2.3 (Note)	10 May 2020	2,763,000	–	–	–	116,006	2,879,006
			10 May 2021	2,763,000	–	–	–	116,006	2,879,006
				5,526,000	–	–	–	232,012	5,758,012
	24 July 2020	HK$0.8	23 July 2021	–	7,222,000	–	–	–	7,222,000
			23 July 2022	–	6,702,000	–	–	–	6,702,000
				–	13,924,000	–	–	–	13,924,000
Sub-total for Directors				5,526,000	13,924,000	–	–	232,012	19,682,012
Employees	9 May 2019	HK$2.3 (Note)	10 May 2020	212,500	–	–	(42,500)	8,922	178,922
			10 May 2021	212,500	–	–	(42,500)	8,922	178,922
			10 May 2022	212,500	–	–	(42,500)	8,922	178,922
			10 May 2023	212,500	–	–	(42,500)	8,922	178,922
				850,000	–	–	(170,000)	35,688	715,688
	24 July 2020	HK$0.8	23 July 2021	–	466,667	–	–	–	466,667
			23 July 2022	–	466,667	–	–	–	466,667
			23 July 2023	–	466,666	–	–	–	466,666
				–	1,400,000	–	–	–	1,400,000
Sub-total for Employees				850,000	1,400,000	–	(170,000)	35,688	2,115,688
Total				6,376,000	15,324,000	–	(170,000)	267,700	21,797,700

Note: As a result of the completion of the Rights Issue, assuming no other adjustment events under the terms and conditions of the Share Option Scheme having been triggered and pursuant to (i) the terms and conditions of Share Option Scheme; and (ii) Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules, the exercise price of the Share Options and the number of Shares which may fall to be issued upon exercise of the subscription rights attaching to the outstanding Share Options granted before the completion of the Rights Issue has been adjusted.

SHARE AWARD SCHEME

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

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

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

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

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

The Board has resolved in February 2016 that a sum of HK$10,000,000 be provided for the purchase of the Shares to be awarded to the Eligible Award Participants to be selected by the Board. During the year ended 31 December 2020, no Share was purchased by the Share Award Scheme Trust.

As at 31 December 2020, the Share Award Scheme Trust held 1,916,000 shares (the "Award Shares") (31 December 2019: 2,206,000 Award Shares). During the year ended 31 December 2020, (i) 1,000,000 Award Shares were granted to a Directors; (ii) 290,000 Award Shares were vested to the Eligible Participants; and (iii) no Award Share were forfeited.

The Group recognised a net share award expense of HK$1,020,000 for the year ended 31 December 2020 (2019: HK$578,000).

CONNECTED TRANSACTIONS

Acquisition of Intellectual Properties

On 25 August 2020, Nong's Company Limited (a wholly-owned subsidiary of the Company), entered into the Sale and Purchase Agreement with Herbminers Informatics Limited ("Herbminers"), a company ultimately owned as to 80% by Mr. Abraham Chan, the executive Director and a controlling shareholder of the Company and 20% by two independent third parties to acquire the intellectual properties, which comprise the titles, interests and rights of Herbminers in respect of the software, namely the Traditional Chinese Medicine Advisor 3.0, which is a Chinese medicine management software developed by Herbminers. The total consideration for such acquisition is HK$9,900,000. ("Acquisition") As such, Herbminers is a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As all applicable percentage ratios in respect of the Acquisition is less than 25% and the total consideration is less than HK$10,000,000, the Acquisition is subject to reporting and announcement requirements but exempted from shareholders' approval under Chapter 14A of the Listing Rules.

For further information in relation to the Acquisition of Intellectual Properties, please refer to the announcement of the Company dated on 25 August 2020.

Sale of Assets

On 8 October 2020, Purapharm (Nanning) Pharmaceuticals Co. Limited (a wholly-owned subsidiary of the Company) ("PuraPharm Nanning"), entered into the Asset Sale Agreement with BAGI Research Limited ("BAGI"), to acquire the assets, which comprise the interests and rights of a research and development project in relation to the development of pharmaceutical products for treating irritable bowel syndrome known as 仁術腸樂顆粒. The total consideration for such sale is HK$12,500,000. BAGI is a company indirectly and wholly owned by Mr. Abraham Chan, the executive Director and a controlling shareholders of the Company. Therefore, BAGI is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Asset Sale Agreement will constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As the highest applicable ratio in respect of the Asset Disposal is more than 0.1% but less than 5%, the Asset Disposal is subject to reporting and announcement requirements but exempted from shareholders' approval under Chapter 14A of the Listing Rules.

The Asset Disposal is not yet completed as of the date of this report as certain conditions precedent in the Asset Sale Agreement were not yet fulfilled. PuraPharm Nanning and BAGI are still in progress to fulfil the conditions precedent for the completion of the Asset Sale Agreement. PuraPharm Nanning and BAGI has entered into a supplemental agreement on 25 March 2021 to extend the Long Stop Date of the Asset Disposal to 30 September 2021.

For further information in relation to the Sale of Assets, please refer to the announcements of the Company dated on 8 October 2020 and 25 March 2021.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the year ended 31 December 2020 are set out in note 36 to the consolidated financial statements.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Pursuant to the deed of non-competition dated 16 June 2015 entered into by Fullgold Development, Joint Partners, PuraPharm Corp, Mr. Abraham Chan, Ms. Viola Man (collectively known as the "Covenantors") in favour of the Company (the "Deed of Non-Competition), each of the Covenantors has confirmed to the Company of its/his/her compliance with the Deed of Non-Competition during the year ended 31 December 2020.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 36 to the consolidated financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

For details of the Group's environmental policies and performance, please refer to the Environmental, Social and Governance Report set out on pages 50 to 72 of this annual report.

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

The Board is not aware any significant event affecting the Company or any of its subsidiaries after 31 December 2020 and up to the date of this annual report requiring disclosure.

AUDITOR

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

ON BEHALF OF THE BOARD
Chan Yu Ling, Abraham
Chairman

Hong Kong
25 March 2021

INDEPENDENT AUDITOR'S REPORT


Agilent Technologies
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INDEPENDENT AUDITOR'S REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of PuraPharm Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 114 to 222, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
As at 31 December 2020, the carrying value of goodwill in the consolidated financial statements amounted to HK$88,339,000, after making an impairment of HK$67,346,000. In accordance with HKFRSs, the Company is required to perform the impairment test for goodwill annually. In performing the impairment test, the goodwill generated from each acquisition is allocated to the corresponding subsidiaries acquired as each of these acquired subsidiaries is a separate cash-generating unit (the "CGU"). The recoverable amount of each cash-generating unit is the higher of its fair value less costs of disposal and its value in use using discounted cash flow models based on a financial budget covering a period of 5 to 8 years. The impairment test involves significant judgements about future business performance, with key assumptions including cash flows, the overall long-term growth rates and discount rates used. This matter was significant to our audit because the balance was material and the test process involved significant judgements. The disclosures about the impairment of goodwill are included in note 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, note 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES and note 16 GOODWILL to the consolidated financial statements.	Our audit procedures included, among others: We involved our internal valuation specialists to assist us in evaluating the methodologies and the discount rate used by the Group for determining the recoverable amount. We evaluated the underlying data used in the management's cashflow projection on the future revenues and operating results by comparing to the financial performance of each CGU during the year 2020. We evaluated management's assumptions of growth rate of each CGU by examining the business development plans and historical annual growth of each CGU. We also assessed the adequacy of the related disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment for non-current assets in the Group's Clinics Segment	
In light of the impact of COVID-19 and continued competitive environment, the management continued to make impairment assessment of the Group's Clinics Segment for the year ended 31 December 2020. As at 31 December 2020, the impairment provision on property, plant and equipment and right-of-use assets in the Group's Clinics Segment was HK$17.6 million and HK$19.1 million, respectively. VIU was determined based on the discounted cash flow projections, which involved significant judgements on the key assumptions such as future revenue growth, the discount rate and the operating cost. This matter was significant to our audit because the amounts was material and the significant judgement involved. The disclosures about the impairment assessment for non-current assets in the Group's Clinics Segment are included in note 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, note 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES, note 4 OPERATING SEGMENT INFORMATION, note 13 PROPERTY, PLANT AND EQUIPMENT and note 15 LEASES to the consolidated financial statements.	We evaluated the design and implementation of key controls around the impairment review processes. We assessed the methodology applied by management of the Group. We evaluated the judgements applied in determining the CGUs of the business. We assessed the underlying data and key assumptions used in the cash flow projections prepared by the management by comparing with historical performance of each clinics, market expectations and our understanding of the Group's most recent business strategic. We recalculated the recoverable amount. We also assessed the adequacy of the related disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of biological assets	
The Group's biological assets comprise raw Chinese herbs. The balance of the Group's biological assets, which are measured at fair value less cost to sell, was HK$105,110,000 as at 31 December 2020. Management engaged an independent external valuer to assess the fair value of the Group's biological assets as at 31 December 2020. We identified the valuation of biological assets as a key audit matter since (i) the carrying value of biological assets was material to the Group; and (ii) significant estimates were involved in the assessment. The Company's disclosures about the valuation of biological assets are included in note 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and note 20 BIOLOGICAL ASSETS to the consolidated financial statements.	Our audit procedures included, among others: We evaluated the independence, competence and objectivity of the independent external valuer and independent industry expert who engaged by management for the valuation of the biological assets. We involved our internal valuation specialists to assist us in evaluating the discount rate and methodologies used by the Company. We assessed the input with the significant judgement and estimation on a sample basis by comparing the estimated yields, plantation periods, expected price and price growth rates with latest sales or plantation records and published market data. For those biological assets without historical plantation records, we evaluated management's estimation regarding the yields and plantation periods by comparing them with the assessment result of an independent industry expert. We also assessed the adequacy of the related disclosures in the consolidated financial statements.
Provision for impairment of trade and bills receivables	
As at 31 December 2020, the Group had trade and bills receivables of HK$221,528,000, after making a provision of HK$26,764,000. The Group uses a provision matrix to calculate expected credit losses ("ECL") for trade and bills receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. This matter was significant to our audit because of the high level of management estimation required and the materiality of amounts. The disclosures about the provision for impairment of trade and bills receivables are included in note 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, note 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES and note 21 TRADE AND BILLS RECEIVABLES to the consolidated financial statements.	We assessed the Group's internal controls over the credit control of trade and bills receivables and evaluated the mathematic calculation by recalculating the provision matrix of ECLs. We evaluated the assumptions used in the ECL model by 1) assessing management's assumptions regarding the groupings of customer segments with similar loss patterns by reviewing the credit terms and historical payment patterns of different categories of the customers; and 2) examining the underlying data used in the provision matrix by checking to the corresponding ageing and payment records; and 3) evaluating forward-looking adjustments by analysing the deviation between forward-looking factors and the Group's historical default rate. We also assessed the adequacy of the related disclosures in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Mee Kwan, Helena.

Ernst & Young
Certified Public Accountants
Hong Kong

25 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	**601,815**	695,879
Cost of sales		**(231,866)**	(297,040)
Gross profit		**369,949**	398,839
Other income and gains	5	**94,727**	17,467
Selling and distribution expenses		**(210,539)**	(226,212)
Administrative expenses		**(153,457)**	(228,482)
Impairment loss on property, plant and equipment	13	**(229)**	(19,063)
Impairment loss on right-of-use assets	15	**—**	(22,380)
Impairment loss on goodwill	16	**—**	(67,346)
Impairment loss on financial assets, net	21	**(10,831)**	(5,391)
Other expenses		**(22,573)**	(36,379)
Finance costs	7	**(26,830)**	(27,203)
PROFIT/(LOSS) BEFORE TAX	6	**40,217**	(216,150)
Income tax expense	10	**(8,507)**	(11,108)
PROFIT/(LOSS) FOR THE YEAR		**31,710**	(227,258)
Attributable to: owners of the parent		**31,710**	(227,258)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
— For profit/(loss) for the year (expressed in HK cents per share)		**8.55**	(87.16)
Diluted			
— For profit/(loss) for the year (expressed in HK cents per share)		**8.54**	(87.16)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**31,710**	(227,258)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**14,136**	(6,700)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**14,136**	(6,700)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**45,846**	(233,958)
Attributable to:		
Owners of the parent	**45,846**	(233,958)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**322,839**	239,356
Investment properties	14	**7,568**	7,557
Right-of-use assets	15(a)	**136,513**	121,117
Goodwill	16	**88,339**	88,339
Other intangible assets	17	**42,920**	34,275
Financial assets at fair value through profit or loss	18	**18,258**	18,195
Biological assets	20	**95,084**	52,436
Prepayments for non-current assets	22	**44,087**	50,902
Deferred tax assets	29	**11,291**	12,363
Total non-current assets		**766,899**	624,540
CURRENT ASSETS			
Inventories	19	**180,124**	200,888
Biological assets	20	**10,026**	10,077
Trade and bills receivables	21	**221,528**	230,734
Prepayments, other receivables and other assets	22	**68,637**	62,879
Tax recoverable		**906**	—
Pledged deposits	23	**35,056**	25,115
Cash and cash equivalents	23	**91,401**	68,009
Total current assets		**607,678**	597,702
CURRENT LIABILITIES			
Trade and bills payables	24	**159,344**	178,985
Other payables and accruals	25	**110,318**	97,285
Interest-bearing bank and other borrowings	26	**279,329**	312,282
Lease liabilities	15(b)	**31,402**	28,030
Loans from a director	27	**—**	15,000
Amount due to a related company	36(c)	**5,900**	—
Tax payable		**2,845**	5,850
Government grants	28	**2,749**	1,648
Total current liabilities		**591,887**	639,080
NET CURRENT ASSETS/(LIABILITIES)		**15,791**	(41,378)
TOTAL ASSETS LESS CURRENT LIABILITIES		**782,690**	583,162

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	25	50,564	30,173
Interest-bearing bank and other borrowings	26	178,992	143,715
Lease liabilities	15(b)	34,388	42,506
Government grants	28	3,853	2,038
Deferred tax liabilities	29	3,235	2,607
Total non-current liabilities		271,032	221,039
Net assets		511,658	362,123
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	306,042	204,028
Shares held for share award scheme	31(b)	(6,258)	(7,200)
Reserves	32	211,874	165,295
Total equity		511,658	362,123

Mr. Chan Yu Ling, Abraham
Director

Dr. Tsoi Kam Biu, Alvin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Notes	Share capital HK$'000 (note 30)	Share premium account HK$'000 (note 30)	Shares held for share award scheme HK$'000 (note 31(b))	Reserve for share award and share option scheme HK$'000 (note 31)	Merger reserve HK$'000 (note 32)	Surplus reserves HK$'000 (note 32)	Capital reserve HK$'000 (note 32)	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2020		204,028	224,484	(7,200)	5,524	1,814	28,646	(7,505)	(16,157)	(71,511)	362,123
Profit for the year		–	–	–	–	–	–	–	–	31,710	31,710
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	14,136	–	14,136
Total comprehensive income for the year		–	–	–	–	–	–	–	14,136	31,710	45,846
Transfer from retained profits		–	–	–	–	–	518	–	–	(518)	–
Issue of shares	30	102,014	3,291	–	–	–	–	–	–	–	105,305
Share issue expense	30	–	(7,257)	–	–	–	–	–	–	–	(7,257)
Recognition of equity-settled share option expenses	31(a)	–	–	–	4,707	–	–	–	–	–	4,707
Recognition of equity-settled share award expenses	31(b)	–	–	–	1,020	–	–	–	–	–	1,020
Forfeiting of share option		–	–	–	(86)	–	–	–	–	–	(86)
Transfer of vested shares under Share Award Scheme		–	140	942	(1,082)	–	–	–	–	–	–
At 31 December 2020		306,042	220,658*	(6,258)	10,083*	1,814*	29,164*	(7,505)*	(2,021)*	(40,319)*	511,658

* These reserve accounts comprise the consolidated reserves of HK$211,874,000 (2019: HK$165,295,000) in the consolidated statement of financial position as at 31 December 2020.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**40,217**	(216,150)
Adjustments for:			
Finance costs	7	**26,830**	27,203
Bank interest income	5	**(456)**	(592)
Foreign exchange (gain)/loss, net	6	**(3,996)**	2,405
Loss on disposal of property, plant and equipment	6	**2,109**	3,149
Equity-settled share award and share option expenses	31	**5,641**	4,223
Covid-19-related rent concessions from lessors	15(b)	**(1,970)**	—
Depreciation of property, plant and equipment	6	**21,244**	29,370
Depreciation of right-of-use assets	6	**22,116**	33,620
Amortisation of intangible assets	6	**4,266**	3,765
Fair value loss on investment properties	6	**464**	1,452
Fair value (gain)/loss on financial assets at fair value through profit or loss	6	**(63)**	1,546
Fair value (gain)/loss on biological assets	6	**(20,800)**	19,642
Impairment loss on property, plant and equipment	6	**229**	19,063
Impairment loss on right-of-use assets	6	**—**	22,380
Impairment loss on goodwill	6	**—**	67,346
Impairment loss on other intangible assets	6	**—**	54
Write-down of inventories to net realisable value	6	**2,738**	6,286
Impairment loss on trade and bills receivables	6	**10,831**	5,391
		109,400	30,153
Decrease in inventories		**39,451**	33,396
Increase in biological assets		**(28,109)**	(41,439)
Decrease in trade and bills receivables		**10,679**	47,875
(Increase)/decrease in prepayments, deposits and other receivables		**(2,716)**	804
(Decrease)/increase in trade and bills payables		**(29,621)**	44,412
Increase/(decrease) in government grants		**2,521**	(1,724)
Increase in other payables and accruals		**28,001**	20,396
Cash generated from operations		**129,606**	133,873
Interest received		**456**	592
Hong Kong profits tax paid		**(4,954)**	(514)
Overseas profits tax paid		**(1,857)**	(2,190)
PRC profit taxes paid		**(3,397)**	(561)
Net cash flows generated from operating activities		**119,854**	131,200

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(76,047)**	(66,427)
Acquisition of right-of-use assets		**—**	(28,518)
Proceeds from disposal of property, plant and equipment		**677**	—
Additions to intangible assets		**(6,799)**	(2,014)
Purchase of financial assets at fair value through profit or loss		**—**	(9,000)
Increase in pledged time deposits, net		**(9,941)**	(16,115)
Receipt of retention money from a construction project		**—**	30,613
Net cash flows used in investing activities		**(92,110)**	(91,461)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings	33(b)	**407,188**	333,417
Repayment of bank loans and other borrowings	33(b)	**(424,775)**	(367,318)
Share issue expenses	30	**(7,257)**	(361)
Proceeds from issue of shares		**105,305**	—
Loans (paid to)/from a director	33(b)	**(15,000)**	15,000
Principal portion of lease payments	33(b)	**(35,902)**	(30,719)
Interest paid for lease liabilities	33(b)	**(4,528)**	(5,501)
Interest paid for bank and other borrowings		**(28,644)**	(23,764)
Net cash flows used in financing activities		**(3,613)**	(79,246)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**24,131**	(39,507)
Cash and cash equivalents at beginning of year		**50,429**	90,516
Effect of foreign exchange rate changes, net		**1,250**	(580)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**75,810**	50,429
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**91,401**	68,009
Bank overdrafts	26	**(15,591)**	(17,580)
Cash and cash equivalents as stated in the statement of cash flows		**75,810**	50,429

1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the year, the 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.

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

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PuraPharm Holdings Limited	BVI	United States dollar ("US$") 1	100%	—	Investment holding
Natural Corporation Limited	Hong Kong	HK$100	—	100%	Trading of Chinese healthcare products
PuraPharm International (H.K.) Limited [a]	Hong Kong	HK$2,000,000	—	100%	Manufacture and trading of Chinese healthcare products
Nong's International Limited	BVI	US$1	—	100%	Investment holding and trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm (Nanning) Pharmaceuticals Co. Limited [c]	People's Republic of China ("PRC")/ Mainland China	Chinese yuan ("RMB") 202,000,000	—	100%	Manufacture and trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm International (Singapore) Pte Limited	Singapore	Singapore dollar 2	—	100%	Trading of Chinese healthcare products
PuraPharm Corporation	United States of America ("USA")	US$1,000	—	100%	Trading of Chinese healthcare products
Nong's Corporation Limited	BVI	US$25,019	—	100%	Investment holding
PuraPharm Research Corporation Limited	Hong Kong	HK$10,000	—	100%	Research and development of modernised Chinese medicines

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
PuraPharm International Limited	Hong Kong	HK$2	—	100%	Trading of Chinese healthcare products
Nong's Company Limited [(a)]	Hong Kong	HK$2	—	100%	Trading of modernised Chinese medicines
Nong's Chinese Medicine Health Care Centre Limited	Hong Kong	HK$10,000	—	100%	Provision of Chinese medical diagnostic services
Poly Modern TCM Research Institute Limited	Hong Kong	HK$48,160,000	—	100%	Trading of Chinese healthcare products
Nong's Clinic Holdings Limited	BVI	US$1,283	—	100%	Investment holding
Nong's Chinese Medicine Clinic Centre Limited	Hong Kong	HK$2	—	100%	Provision of Chinese medical diagnostic services
PuraPharm Investment Limited	Hong Kong	HK$1	—	100%	Trading of Chinese medicines
PuraPharm Australia Pty Ltd.	Australia	Australian Dollar ("AU$") 1	—	100%	Trading of Chinese healthcare products
PuraPharm Health Limited	BVI	US$1	—	100%	Investment holding
PuraPharm (Macao) Limited	Macau	MOP25,000	—	100%	Trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm Canada Corporation	Canada	HK$100	—	100%	Trading of Chinese healthcare products
Nong's (Guangxi) Company Limited	Hong Kong	HK$10,000	—	100%	Investment holding
南寧培力醫藥技術有限公司[(c)]	PRC/Mainland China	RMB3,470,000	—	100%	Research and development of Chinese healthcare products and modernised Chinese medicines
Nong's Healthcare 1 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 2 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 3 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 4 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nong's Healthcare 5 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 6 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 7 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 8 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 9 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 10 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 11 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 12 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 13 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 14 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 15 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 16 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 17 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 18 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 19 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 20 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 21 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nong's Healthcare 22 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 23 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 24 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 25 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 26 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 27 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 28 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 29 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
Nong's Healthcare 30 Limited	Hong Kong	HK$1	—	100%	Provision of Chinese medical diagnostic services
PuraPharm Japan Corporation	Japan	Japanese yen ("JPY") 180,010,000	—	100%	Research and development of new products
K'an Herb Company	USA	US$233,848	—	100%	Manufacture and sale of Chinese herbal products
Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd.[(b) (c)]	PRC	RMB100,000,000	—	100%	Plantation and trading of raw Chinese herbs
Gold Sparkle (Guizhou) HZ Plantation Co., Ltd.[(b) (c)]	PRC	RMB30,000,000	—	100%	Plantation and trading of raw Chinese herbs
SODX Co., Ltd.	Japan	JPY90,000,000	—	100%	Manufacture and sale of health food
上海農本方中醫門診部有限公司[(c)]	PRC	RMB3,500,000	—	100%	Provision of Chinese medical diagnostic services

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanning Nong's Medical Consulting Company Limited [(c)]	PRC	RMB15,000,000	—	100%	Investment properties holding
Guizhou Jinping Gold Sparkle Chinese Medicine Co., Ltd. [(c)]	PRC	RMB10,000,000	—	100%	Plantation and trading of raw Chinese herbs
上海培力營銷諮詢服務有限公司 [(c)]	PRC	RMB2,000,000	—	100%	Provision of marketing consultation services
南寧農本方中醫門診部有限公司 [(c)]	PRC	RMB3,000,000	—	100%	Provision of Chinese medical diagnostic services

(a) The statutory financial statements of these entities were prepared under HKFRSs and were audited by Ernst & Young, Hong Kong.

(b) The statutory financial statements of these entities prepared under the PRC Generally Accepted Accounting Principles were audited by Ernst & Young Hua Ming (LLP).

(c) Registered as wholly-foreign-owned enterprises under the laws of the PRC.

2.1 BASIS OF PREPARATION

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

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 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

Other than as further explained below, the adoption of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the consolidated financial statements.:

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if: (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's plant and machinery have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$1,970,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*[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 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3,6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3,5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Fair value measurement

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

Buildings	2.5% to 9%
Leasehold improvements	Over the shorter of the lease terms and 20%
Machinery and equipment	4.5% to 30%
Office equipment and furniture	9% to 30%
Motor vehicles	9% to 20%
Freehold land	Not depreciated

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

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

Intangible assets (other than goodwill)

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

Trademarks, patents, licences and software

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

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

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

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

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

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

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

Group as a lessor

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor (continued)

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

General approach

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

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

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Agricultural produce harvested from the Group's biological assets are raw Chines herbs. Agricultural produce is initially recognised as inventories at their fair values less costs to sell at the point of harvest, which are determined based on their market prices quoted in the local area. Any resultant gain or loss arising on initial recognition of such fair values is recognised in profit or loss in the period of harvest. Upon subsequent sales, such amount of the inventories initially recognised is charged to the cost of sales in profit or loss.

Biological assets

Biological assets are measured on initial recognition and at the end of each reporting period at their fair values less costs to sell. If the fair value of a biological asset cannot be measured reliably, the biological asset shall be measured at its cost. Any resultant gain or loss arising from changes in fair value less costs to sell is charged to profit or loss for the period in which the gain or loss arises.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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

(a) Sale of goods

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

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

(i) Rights of return

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Rendering of services

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

Other income

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract assets

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

Contract liabilities

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

Right-of-return assets

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

Refund liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

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

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Withholding taxes arising from the distribution of dividends

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 16 to the financial statements.

Estimation of fair value of biological assets

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

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

Provision for expected credit losses on trade and bills receivables

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

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

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

Deferred tax assets

Deferred tax assets are recognised for certain deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 29 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Write-down of inventories to net realisable value

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

Leases — Estimating the incremental borrowing rate

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

The following tables present revenue, profit and other segment information for the Group's operating segments for the years ended 31 December 2020 and 2019.

31 December 2020

	China CCMG HK$'000	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Plantation HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue (note 5):							
External customers	278,478	146,433	85,752	49,924	41,228	–	601,815
Intersegment sales	72,050	7,901	1,261	–	2,588	(83,800)	–
	350,528	154,334	87,013	49,924	43,816	(83,800)	601,815
Segment results	29,366	32,815	13,527	(3,232)	38,993	–	111,469
Reconciliations:							
Interest income							456
Foreign exchange gain, net							3,996
Equity-settled share award and share option expenses							(5,641)
Finance costs (other than interest on lease liabilities)							(22,302)
Corporate and other unallocated expenses							(47,761)
Profit before tax							40,217
Income tax expense							(8,507)
Net Profit							31,710
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible assets	11,127	2,771	4,058	2,511	5,043	–	25,510
Depreciation of right-of-use assets	7,968	1,155	5,443	5,390	2,160	–	22,116
Loss on disposal of items of property, plant and equipment	1,389	173	161	386	–	–	2,109
Write-down of inventories to net realisable value	1,779	296	663	–	–	–	2,738
Impairment loss on property, plant and equipment	229	–	–	–	–	–	229
(Reversal of) impairment loss on trade and bills receivables	8,170	(105)	(28)	–	2,794	–	10,831
Government grants	20,048	1,811	1,112	3,608	39,220	–	65,799
Capital expenditure*	74,752	10,451	28,742	10,455	6,130	–	130,530

4. OPERATING SEGMENT INFORMATION (continued)

31 December 2019

	China CCMG HK$'000	Hong Kong CCMG HK$'000	Chinese healthcare products HK$'000	Clinics HK$'000	Plantation HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue (note 5):							
External customers	285,220	161,573	90,429	96,413	62,244	—	695,879
Intersegment sales	100,421	15,924	971	—	46,113	(163,429)	—
	385,641	177,497	91,400	96,413	108,357	(163,429)	695,879
Segment results	(10,606)	32,561	14,769	(65,437)	(104,272)	—	(132,985)
Reconciliations:							
Interest income							592
Foreign exchange loss, net							(2,405)
Equity-settled share award and share option expenses							(4,223)
Finance costs (other than interest on lease liabilities)							(21,702)
Corporate and other unallocated expenses							(55,427)
Loss before tax							(216,150)
Income tax expense							(11,108)
Net Loss							(227,258)
Other segment information:							
Depreciation and amortisation of property, plant and equipment and other intangible asset	9,315	2,642	3,361	13,184	4,633	—	33,135
Depreciation of right-of-use asset	8,890	1,155	1,922	19,679	1,974	—	33,620
Loss on disposal of items of property, plant and equipment	—	—	—	3,149	—	—	3,149
Write-down of inventories to net realisable value	5,681	605	—	—	—	—	6,286
Impairment loss on property, plant and equipment, other intangible assets and right-of-use assets	1,882	—	—	39,615	—	—	41,497
Impairment loss on goodwill	—	—	—	—	67,346	—	67,346
Impairment loss on trade and bills receivables	4,220	403	98	—	670	—	5,391
Government grants	12,053	—	—	—	—	—	12,053
Capital expenditure*	11,698	4,713	8,163	25,952	42,395	—	92,921

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020 HK$'000	2019 HK$'000
Hong Kong	**227,922**	297,137
Mainland China	**323,339**	350,740
Other countries/regions	**50,554**	48,002
	601,815	695,879

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

(b) Non-current assets

	2020 HK$'000	2019 HK$'000
Hong Kong	**143,342**	136,641
Mainland China	**550,635**	436,520
Other countries/regions	**43,373**	20,821
	737,350	593,982

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

Information about a major customer

For the years ended 31 December 2020 and 2019, there was no single customer from which more than 10% of the Group's total revenue was derived.

5. REVENUE, OTHER INCOME AND GAINS

(a) Revenue

An analysis of revenue is as follows:

	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers		
Sale of CCMG products	462,284	517,453
Sale of Chinese healthcare products	85,752	90,429
Sale of raw Chinese herbs	41,228	62,244
Rendering of Diagnostic Services	12,551	25,753
	601,815	695,879

Revenue from contracts with customers

(i) Disaggregated revenue information

	For the year ended 31 December					
	2020			2019		
Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Types of goods or services						
Sale of goods	589,264	–	589,264	670,126	—	670,126
Rendering of services	–	12,551	12,551	—	25,753	25,753
Total revenue from contracts with customers	589,264	12,551	601,815	670,126	25,753	695,879
Geographical markets						
Hong Kong	215,853	12,069	227,922	272,118	25,019	297,137
Mainland China	322,857	482	323,339	350,081	659	350,740
Other countries/regions	50,554	–	50,554	47,927	75	48,002
Total revenue from contracts with customers	589,264	12,551	601,815	670,126	25,753	695,879
Timing of revenue recognition						
Goods transferred at a point in time	589,264	–	589,264	670,126	—	670,126
Services transferred over time	–	12,551	12,551	—	25,753	25,753
Total revenue from contracts with customers	589,264	12,551	601,815	670,126	25,753	695,879

5. REVENUE, OTHER INCOME AND GAINS (continued)

(a) Revenue (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

	For the year ended 31 December					
	2020			2019		
Segments	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000	Sale of goods HK$'000	Diagnostic services HK$'000	Total HK$'000
Revenue from contracts with customers						
External customers	589,264	12,551	601,815	670,126	25,753	695,879
Intersegment sales	83,800	–	83,800	163,429	—	163,429
	673,064	12,551	685,615	833,555	25,753	859,308
Intersegment adjustments and eliminations	(83,800)	–	(83,800)	(163,429)	—	(163,429)
Total revenue from contracts with customers	589,264	12,551	601,815	670,126	25,753	695,879

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:

	2020 HK$'000	2019 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	13,786	7,498
Rendering of services	255	369
	14,041	7,867

5. REVENUE, OTHER INCOME AND GAINS (continued)

(a) Revenue (continued)

Revenue from contracts with customers (continued)

(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.

(b) Other income and gains

	Notes	2020 HK$'000	2019 HK$'000
Fair value gain on biological assets, net	20	**20,800**	—
Foreign exchange gain, net		**3,996**	—
Government grants*	28	**65,799**	12,053
Gain from the sale of equipment and accessories		**1,054**	2,447
Bank interest income		**456**	592
Gross rental income from investment property operating leases:			
Variable lease payments that do not depend on an index or a rate		**358**	272
Others		**2,264**	2,103
		94,727	17,467

* The government grants were mainly consisted of the sum received from the relevant authorities of the PRC to reward the Group's industrial investment in Guizhou province, finance costs subsidies, tax refund and grants for certain research and development projects and the subsidies from Hong Kong Government to support enterprise against the negative impact brought by the COVID-19 pandemic.

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2020 HK$'000	2019 HK$'000
Cost of inventories sold		225,396	283,786
Cost of services provided		6,470	13,254
Depreciation of property, plant and equipment	13	21,244	29,370
Depreciation of right-of-use assets	15(a)	22,116	33,620
Amortisation of intangible assets	17	4,266	3,765
Fair value loss on investment properties*	14	464	1,452
Fair value (gain)/loss on financial assets at fair value through profit or loss*	18	(63)	1,546
Fair value (gain)/loss on biological assets, net*	20	(20,800)	19,642
Impairment loss on property, plant and equipment	13	229	19,063
Impairment loss on right-of-use assets	15(a)	—	22,380
Impairment loss on goodwill	16	—	67,346
Impairment loss on other intangible assets	17	—	54
Write-down of inventories to net realisable value**	19	2,738	6,286
Impairment loss on trade and bills receivables	21	10,831	5,391
Litigation claims		11,740	4,000
Lease payments not included in the measurement of lease liabilities	15(c)	4,457	14,085
Auditors' remuneration		3,440	3,110
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		78,455	69,678
Pension scheme contributions		8,726	9,481
Equity-settled share award and share option expenses		608	455
Severance payments		—	1,492
		87,789	81,106
Research and development costs***		22,038	34,733
Loss on disposal of property, plant and equipment*		2,109	3,149
Foreign exchange (gain)/loss, net*		(3,996)	2,405

* Fair value gain on financial assets at fair value through profit or loss and biological asset was included in "Other income and gain" in the consolidated statement of profit or loss for the year ended 31 December 2020.The fair value loss on investment properties, financial asset at fair value through profit or loss, and biological asset, loss on disposal of property plant and equipment and foreign exchange loss, net was included in "Other expenses" in the consolidated statement of profit or loss for the year ended 31 December 2019.

** 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 2020 and 2019.

*** HK$1,260,000 (2019: HK$1,249,000) disclosed in the item of "Depreciation" and HK$6,428,000 (2019: HK$7,845,000) disclosed in the item of "Employee benefit expense" were also included in the item of "Research and development costs".

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	2020 HK$'000	2019 HK$'000
Interests on bank loans and other borrowings		26,028	25,499
Interests on lease liabilities	15(c)	4,528	5,501
Less: Interest capitalised	13	(3,726)	(3,797)
		26,830	27,203

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2020 HK$'000	2019 HK$'000
Fees	1,442	1,200
Other emoluments:		
Salaries, allowances and benefits in kind	5,123	3,077
Pension scheme contributions	60	54
Equity-settled share award and share option expenses (note 31)	5,033	3,768
	10,216	6,899
	11,658	8,099

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

(a) Independent non-executive directors

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

2020	Fees HK$'000	Equity-settled share award expenses HK$'000	Total remuneration HK$'000
Dr. Leung Lim Kin, Simon	**200**	**8**	**208**
Prof. Tsui Lap Chee	**200**	**8**	**208**
Dr. Chan Kin Keung, Eugene	**200**	**8**	**208**
Mr. Ho Kwok Wah, George	**200**	**8**	**208**
	800	**32**	**832**

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

There were no other emoluments payable to the independent non-executive directors during the years ended 31 December 2020 and 2019.

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

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

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

	Fees HK$'000	Equity-settled share award and share option expenses HK$'000	Salaries, compensation, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2020					
Chief executive and executive director					
Mr. Chan Yu Ling, Abraham	–	1,553	2,538	18	4,109
Executive directors					
Mr. Chan Kin Man, Eddie***	–	782	133	–	915
Dr. Tsoi Kam Biu, Alvin	–	584	821	18	1,423
Ms. Man Yee Wai, Viola	–	751	616	18	1,385
Mr. Cheong Shin Keong*	–	740	800	6	1,546
Dr. Norimoto Hisayoshi**	–	11	215	–	226
	–	2,868	2,585	42	5,495
Non-executive directors					
Mr. Chow, Stanley	400	–	–	–	400
Mr. Cheong Shin Keong*	175	86	–	–	261
Mr. Chan Kin Man, Eddie***	67	494	–	–	561
	642	580	–	–	1,222
	642	5,001	5,123	60	10,826

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

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

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

* Mr. Cheong Shin Keong was appointed as a non-executive director of the Group by the board of directors on 24 March 2020 and re-designed from a non-executive director to an executive director by the board of directors on 1 September 2020.

** Dr. Norimoto Hisayoshi was appointed as an executive director of the Group by the board of directors on 17 November 2020.

*** Mr. Chan Kin Man, Eddie has been re-designed from an executive director to a non-executive director by the board of directors on 1 September 2020.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2019: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2019: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 HK$'000	2019 HK$'000
Salaries, allowances and benefits in kind	2,328	3,227
Equity-settled share award and share option expenses	15	346
Pension scheme contributions	—	54
	2,343	3,627

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

	Number of employees 2020	 2019
Nil to HK$1,000,000	—	1
HK$1,000,001 to HK$1,500,000	—	2
HK$1,500,001 to HK$3,000,000	1	—
	1	3

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits/(loss) arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which are incorporated in the Cayman Islands and BVI are not subject to any income tax. Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. U.S. and Japan profits taxes have been provided at the rates of 24% (2019: 24%) and 23.2% (2019: 23.2%) on the estimated assessable profits arising in U.S. and Japan, respectively, during the years ended 31 December 2020 and 2019. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, Purapharm (Nanning) Pharmaceuticals Co., Limited ("PuraPharm Nanning"), is qualified as a High and New Technology Enterprise and was entitled to a preferential income tax rate of 15%.

10. INCOME TAX (continued)

According to prevailing PRC income tax law, the income obtained from activities in agricultural, forestry, animal husbandry and fishery projects shall be entitled to income tax reduction or exemption, among which, projects of cultivation of Chinese medicine herbs and service projects related to agriculture such as agro-product preliminary processing are exempted from income tax. Gold Sparkle (Guizhou) 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 Company income tax exemption for year 2020 and the preferential income tax rate was 0%.

	2020	2019
	HK$'000	HK$'000
Current	**6,339**	7,182
Deferred (note 29)	**2,168**	3,926
Total tax charge for the year	**8,507**	11,108

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

2020

	Mainland China		Hong Kong		Others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	29,678		16,087		(5,548)		40,217	
Tax at the statutory tax rates	7,418	25.0	2,654	16.5	2,024	(36.5)	12,096	30.1
Lower tax rate enacted by local authority	(1,144)	(3.9)	–	–	–	–	(1,144)	(2.8)
Preferential income tax for agriculture business	(4,525)	(15.2)	–	–	–	–	(4,525)	(11.3)
Tax waiver	–	–	(165)	(1.0)	–	–	(165)	(0.4)
Income not subject to tax	–	–	(54)	(0.3)	–	–	(54)	(0.1)
Tax incentive on eligible expenses	(1,792)	(6.0)	–	–	–	–	(1,792)	(4.5)
Adjustments in respect of current tax of previous periods	(701)	(2.4)	828	5.1	2	–	129	0.3
Expenses not deductible for tax	405	1.4	64	0.4	–	–	469	1.2
Tax losses utilised from previous years	(4,351)	(14.7)	–	–	(1,018)	18.3	(5,369)	(13.4)
Write-off of deferred tax assets recognised in previous years	2,096	7.1	–	–	–	–	2,096	5.2
Tax losses not recognised	3,939	13.3	1,786	11.1	1,041	(18.8)	6,766	16.8
Tax charge at the Group's effective rate	1,345	4.6	5,113	31.8	2,049	(37.0)	8,507	21.1

10. INCOME TAX (continued)

2019

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

11. DIVIDENDS

No dividend was proposed for the years ended 31 December 2020 and 2019.

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

	2020	2019
Earnings/(loss) per share attributable to ordinary equity holders of the parent — Basic (HK cents)	**8.55**	(87.16)
— Diluted (HK cents)	**8.54**	(87.16)

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

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year ended 31 December 2020 excluding ordinary shares purchased by the Group and held for the Award Scheme (note 31(b)).

	2020	2019
Profit/(loss) attributable to ordinary equity holders of the parent (HK$'000)	**31,710**	(227,258)
Weighted average number of ordinary shares in issue	**370,845,654**	260,743,005
Basic earnings/(loss) per share (expressed in HK cents per share)	**8.55**	(87.16)

The calculation of the weighted average number of ordinary shares amounting to 370,845,654 (2019: 260,743,005) in issue for the year ended 31 December 2020 is as follows:

	Notes	2020	2019
Number of issued shares on 1 January	30	**263,261,961**	247,717,920
Adjustment for shares held for share award scheme	31(b)	**(2,048,685)**	(2,338,685)
Effect of capitalisation issue on 2 September 2019	30	**—**	5,110,370
Effect of right issue on 2 March 2020	41	**109,632,378**	10,253,400
Weighted average number of ordinary shares		**370,845,654**	260,743,005

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

(b) Diluted

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

	Notes	2020	2019
Profit/(loss) attributable to the ordinary equity holders of the parent (HK$'000)		**31,710**	(227,258)
Weighted average number of ordinary shares in issue during the year		**370,845,654**	260,743,005
Adjustment for Award Shares	31(b)	**567,685**	—*
Weighted average number of ordinary shares for diluted earnings per share calculation		**371,413,339**	260,743,005
Diluted earnings/(loss) per share (expressed in HK cents per share)		**8.54**	(87.16)

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

The Group also had no potentially dilutive ordinary shares in issue for share options during the year ended 31 December 2020 as its excise price is higher than the market price of the Group's shares as at the end of the reporting period.

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and Buildings HK$'000	Leasehold improvements HK$'000	Machinery and equipment HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2020								
At 1 January 2020								
Cost		118,636	51,367	124,212	37,142	7,250	81,160	419,767
Accumulated depreciation and impairment		(18,370)	(47,174)	(75,826)	(25,849)	(5,739)	(7,453)	(180,411)
Net carrying amount		100,266	4,193	48,386	11,293	1,511	73,707	239,356
At 1 January 2020, net of accumulated depreciation and impairment		100,266	4,193	48,386	11,293	1,511	73,707	239,356
Additions		1,605	940	8,415	3,982	–	70,157	85,099
Interest capitalised	7	–	–	–	–	–	3,726	3,726
Disposals		–	(1,129)	(1,258)	(399)	–	–	(2,786)
Depreciation provided during the year	6	(4,020)	(1,827)	(10,076)	(4,659)	(662)	–	(21,244)
Impairment	6	–	–	(183)	(46)	–	–	(229)
Transfers		72,468	–	1,896	219	–	(74,583)	–
Exchange realignment		10,616	23	2,855	543	58	4,822	18,917
At 31 December 2020		180,935	2,200	50,035	10,933	907	77,829	322,839
At 31 December 2020:								
Cost		204,717	40,622	130,781	39,633	7,420	85,776	508,949
Accumulated depreciation and impairment		(23,782)	(38,422)	(80,746)	(28,700)	(6,513)	(7,947)	(186,110)
Net carrying amount		180,935	2,200	50,035	10,933	907	77,829	322,839

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

As at 31 December 2020, certain of the Group's buildings, machinery and equipment and office equipment and furniture with an aggregate net carrying amount of approximately HK$142,575,000 (2019: HK$182,374,000) were pledged to secure bank loans granted to the Group (note 26).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year in 2020, impairments of HK$229,000 (2019: HK$19,063,000) were provided in respect of the land and buildings, machinery, office equipment and furniture with carrying value in aggregate of HK$229,000 (2019: HK$19,063,000). These assets were all related to the China CCMG and have made full depreciation and the group plan to dispose next year (2019: These assets were all related to the Group's clinics or construction projects whose operation or constructions have been suspended considering the unfavorable market conditions in recent times). By taking into account the fact that these assets would not be economically viable for their remaining life and there was no identified alternative usage for them, the directors of the Group assessed the recoverable amount of these assets were nil and made full provision on their carrying value.

14. INVESTMENT PROPERTIES

	Notes	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January		7,557	—
Transfer from owner-occupied property	13	—	9,119
Loss from a fair value adjustment	6	(464)	(1,452)
Exchange realignment		475	(110)
Carrying amount at 31 December		7,568	7,557

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

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

Fair value hierarchy

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

	Fair value measurement as at 31 December 2020 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	—	7,568	—	7,568

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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

15. LEASES

The Group as a lessee

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

(a) Right-of-use assets

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

	Note	**Leasehold Land** HK$'000	**Building** HK$'000	**Machinery and equipment** HK$'000	**Total** HK$'000
As at 1 January 2019		47,178	51,580	23,920	122,678
Additions		27,052	29,526	1,113	57,691
Depreciation charge	6	(1,181)	(26,355)	(6,084)	(33,620)
Impairment	6	—	(22,380)	—	(22,380)
Exchange realignment		(1,781)	(828)	(643)	(3,252)
As at 1 January 2020		71,268	31,543	18,306	121,117
Additions		—	32,584	—	32,584
Depreciation charge	6	(1,432)	(16,683)	(4,001)	(22,116)
Disposal		—	(743)	(791)	(1,534)
Exchange realignment		4,659	871	932	6,462
As at 31 December 2020		74,495	47,572	14,446	136,513

15. LEASES (continued)

The Group as a lessee (continued)

(a) Right-of-use assets (continued)

As at 31 December 2020, certain of the Group's right-of-use assets with a carrying amount of approximately HK$33,588,000 (2019: HK$80,099,000) were pledged to secure bank loans granted to the Group (note 26)

During the year 2020, no impairment of the Group's right-of-use assets was recognised (2019: HK$22,380,000).

(b) Lease liabilities

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

	Note	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January		**70,536**	73,598
New leases		**32,584**	29,173
Accretion of interest recognised during the year	7	**4,528**	5,501
Covid-19-related rent concessions from lessors		**(1,970)**	—
Payments		**(40,430)**	(36,220)
Disposal		**(1,161)**	—
Exchange realignment		**1,703**	(1,516)
Carrying amount at 31 December		**65,790**	70,536
Analysed into:			
Current portion		**31,402**	28,030
Non-current portion		**34,388**	42,506

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

15. LEASES (continued)

The Group as a lessee (continued)

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

	Notes	2020 HK$'000	2019 HK$'000
Interest on lease liabilities	7	**4,528**	5,501
Depreciation charge of right-of-use assets	6	**22,116**	33,620
Expense relating to short-term leases	6	**3,966**	10,223
Expense relating to leases of low-value assets (included in administrative expenses)	6	**491**	3,862
Covid-19-related rent concessions from lessors		**(1,970)**	—
Total amount recognised in profit or loss		**29,131**	53,206

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 33(c), respectively, to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 14) consisting of two commercial properties under operating lease arrangements. Rental income recognised by the Group during the year 2020 was HK$358,000 (2019: HK$272,000), details of which are included in note 5 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 HK$'000	2019 HK$'000
Within one year	**411**	395
After one year but within two years	**432**	414
After two years but within three years	**372**	435
After three years but within four years	**134**	375
After four years but within five years	**—**	135
	1,349	1,754

16. GOODWILL

	2020 HK$'000	2019 HK$'000
Goodwill	155,685	155,685
Impairment	(67,346)	(67,346)
	88,339	88,339

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

	Note	2020 HK$'000	2019 HK$'000
At beginning of year		67,346	—
Impairment recognised during the year	6	—	67,346
At end of year		67,346	67,346

Impairment testing of goodwill

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

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

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

	2020 HK$'000	2019 HK$'000
Plantation CGU	67,346	67,346
Chinese herbal products CGU	13,705	13,705
SODX CGU	7,288	7,288
	88,339	88,339

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

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

	31 December 2020 Plantation CGU	31 December 2020 Chinese herbal products CGU	31 December 2020 SODX CGU
Compound annual growth rate within the Budget Period	12.86%	4.5%	5.0%
Growth rate to extrapolate cash flows beyond the Budget Period	3.0%	2.0%	0.9%
Budget gross profit margin	10.0%~62.2%	55.6%	44.3%
Pre-tax discount rate	13.0%	16.96%	11.7%

	31 December 2019 Plantation CGU	31 December 2019 Chinese herbal products CGU	31 December 2019 SODX CGU
Compound annual growth rate within the Budget Period	10.7%	4.0%	3.0%
Growth rate to extrapolate cash flows beyond the Budget Period	3.0%	2.0%	0.8%
Budget gross profit margin	10.0%~68.2%	55.9%	45.2%
Pre-tax discount rate	15.0%	18.4%	11.7%

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Assumptions were used in the value in use calculation of each CGU as at 31 December 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of each CGU:

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

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

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

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

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

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

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.

17. OTHER INTANGIBLE ASSETS

	Note	Trademarks HK$'000	Patents HK$'000	Licences HK$'000	Software HK$'000	Total HK$'000
31 December 2020						
At 31 December 2019 and at 1 January 2020:						
Cost		33,100	498	1,281	18,743	53,622
Accumulated amortisation and impairment		(10,129)	(410)	(1,281)	(7,527)	(19,347)
Net carrying amount		22,971	88	–	11,216	34,275
Cost at 1 January 2020, net of accumulated amortisation		22,971	88	–	11,216	34,275
Additions		1,418	–	–	11,429	12,847
Amortisation provided during the year	6	(2,084)	(39)	–	(2,143)	(4,266)
Exchange realignment		–	–	–	64	64
At 31 December 2020		22,305	49	–	20,566	42,920
At 31 December 2020:						
Cost		34,507	498	1,281	30,451	66,737
Accumulated amortisation and impairment		(12,202)	(449)	(1,281)	(9,885)	(23,817)
Net carrying amount		22,305	49	–	20,566	42,920

17. OTHER INTANGIBLE ASSETS (continued)

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

During the year 2020, no impairment of intangible asset was recognised (2019: HK$54,000).

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK$'000	2019 HK$'000
Life insurance policies, at fair value	**18,258**	18,195

The Group's financial assets at fair value through profit or loss represented the three (2019: three) life insurance policies to insure an executive director as at 31 December 2020. Under the policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for the policy and may surrender the insurance policies any time by making a written request and receive cash based on the surrender value of the policies at the date of withdrawal, which is calculated by the insurer. In the opinion of the directors, the surrender value of the policies provided by the insurance company is the best approximation of its fair value, which is categorised within Level 3 of the fair value hierarchy. The life insurance policies were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

As at 31 December 2020 and 2019, the Group's life insurance policies were pledged as security for bank facilities granted to the Group. Further details are contained in note 26 to the financial statements.

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

19. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw materials	**64,105**	73,855
Work in progress	**25,902**	32,599
Finished goods	**98,962**	101,882
	188,969	208,336
Less: Provision	**(8,845)**	(7,448)
	180,124	200,888

For the year ended 31 December 2020, the write-down of inventories recognised at cost of sales amounted to HK$2,738,000 (2019: HK$6,286,000).

At 31 December 2020, the Group's inventories with a carrying amount of HK$41,717,000 (2019: HK$39,113,000) were pledged as security for the loans granted to the Group (note 26).

20. BIOLOGICAL ASSETS

	Note	2020 HK$'000	2019 HK$'000
As at 1 January		**62,513**	73,847
Addition during the year		**28,109**	41,438
Fair value gain/(loss) on biological assets, net	6	**20,800**	(19,642)
Harvest during the year		**(12,641)**	(31,057)
Exchange realignment		**6,329**	(2,073)
		105,110	62,513
Portion classified as non-current portion		**(95,084)**	(52,436)
Current portion		**10,026**	10,077

The biological assets of the Group are raw Chinese herbs. The Group harvested raw Chinese herbs with a fair value less estimated cost to sell of HK$12,641,000 (2019: HK$31,057,000) during the year ended 31 December 2020.

The fair value of the biological assets is estimated using the discounted cash flows of the underlying biological assets. The periodic cash flow is estimated as gross income less production expenses including but not limited to rental expenses, labour costs, utilities and other operating and management expenses (the "Periodic Cash Flow") and discounted at a market-derived discount rate in order to establish the present value of the income stream associated with the biological assets.

Significant assumptions made and key inputs in determining the fair values of the biological assets based on discounted cash flow projections are as follows:

(i) the raw Chinese herbs will continue to be competently managed and remain free from irremediable diseases in their remaining estimated useful lives;

(ii) the duration of the cash flows and the specific timing of inflows and outflows are determined by events such as life of raw Chinese herbs;

(iii) estimated yields of raw Chinese herbs are estimated based on the amount planted, health condition, expected death rate, and production conversion rate (from the number of plants to Chinese herbs in kg) if necessary;

(iv) the expected prices and price growth rates of raw Chinese herbs are estimated based on the historical average district prices; and

(v) a market-derived discount rate of 14% is applied to the projection of the Periodic Cash Flow.

20. BIOLOGICAL ASSETS (continued)

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

21. TRADE AND BILLS RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	230,702	230,766
Bills receivable	17,590	17,234
	248,292	248,000
Less: Impairment of trade and bills receivables	(26,764)	(17,266)
	221,528	230,734

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

An ageing analysis of the trade and bills receivables as at 31 December 2020 and 2019, based on the invoice date and net of loss allowance, is as follows:

	2020 HK$'000	2019 HK$'000
Within 1 month	51,898	89,850
1 to 3 months	58,716	48,215
3 to 6 months	44,515	37,272
6 months to 1 year	41,117	31,764
Over 1 year	25,282	23,633
	221,528	230,734

21. TRADE AND BILLS RECEIVABLES (continued)

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

	Note	2020 HK$'000	2019 HK$'000
At beginning of year		**17,266**	12,236
Impairment losses	6	**10,831**	5,391
Amount written off as uncollectible		**(2,919)**	—
Exchange realignment		**1,586**	(361)
At end of year		**26,764**	17,266

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

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

As at 31 December 2020

Group A

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.13%	4.60%	37.37%	100.00%	8.62%
Gross carrying amount (HK$'000)	67,033	79,823	12,315	5,868	165,039
Expected credit losses (HK$'000)	86	3,674	4,602	5,868	14,230

Group B

		Past due			
	Current	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.64%	13.13%	41.15%	100.00%	32.02%
Gross carrying amount (HK$'000)	16,168	6,886	246	9,345	32,645
Expected credit losses (HK$'000)	103	904	101	9,345	10,453

21. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2020 (continued)

Group C

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Expected credit loss rate	0.00%	5.60%	48.48%	100.00%	2.73%
Gross carrying amount (HK$'000)	16,732	139	66	435	17,372
Expected credit losses (HK$'000)	–	8	32	435	475

Group D

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Expected credit loss rate	0.21%	2.28%	16.64%	100.00%	4.84%
Gross carrying amount (HK$'000)	16,352	11,945	4,364	575	33,236
Expected credit losses (HK$'000)	34	272	726	575	1,607

Total

	Current	Past due: Less than 1 year	Past due: 1 to 2 years	Past due: Over 2 years	Total
Gross carrying amount (HK$'000)	116,285	98,793	16,991	16,223	248,292
Expected credit losses (HK$'000)	222	4,858	5,461	16,223	26,764

As at 31 December 2019

Group A

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

21. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2019 (continued)

Group B

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

Group C

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

Group D

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

Total

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

At 31 December 2020, trade receivables of HK$34,124,000 (2019: HK$62,727,000) were pledged as security for the Group's bank loans (note 26).

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 HK$'000	2019 HK$'000
Prepayments	**69,612**	79,992
Right-of-return assets	**1,967**	2,177
Deposits and other receivables	**41,396**	31,848
	112,975	114,017
Less: Impairment allowance	**(251)**	(236)
	112,724	113,781
Portion classified as non-current	**(44,087)**	(50,902)
Current portion	**68,637**	62,879

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

	2020 HK$'000	2019 HK$'000
At 1 January	**236**	243
Exchange realignment	**15**	(7)
At 31 December	**251**	236

The above provision for impairment of other receivables was a provision for individually impaired other receivables of HK$251,000 (2019: HK$236,000) with a carrying amount before provision of HK$251,000(2019: HK$236,000) as at year ended 31 December 2020. The Group does not hold any collateral or other credit enhancements over these balances.

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

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

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 HK$'000	2019 HK$'000
Cash and bank balances	**91,401**	68,009
Time deposits	**35,056**	25,115
	126,457	93,124
Less: Pledged time deposits for bank loans (note 26)	**(35,056)**	(25,115)
Cash and cash equivalents	**91,401**	68,009
Denominated in RMB	**41,187**	41,828
Denominated in HK$	**27,231**	10,448
Denominated in US$	**13,056**	6,950
Denominated in JPY	**9,800**	8,715
Denominated in AU$	**—**	12
Denominated in CAD	**127**	56
Cash and cash equivalents	**91,401**	68,009

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

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

24. TRADE AND BILLS PAYABLES

	2020 HK$'000	2019 HK$'000
Trade payables	122,978	146,533
Bills payables	36,366	32,452
	159,344	178,985

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:

	2020 HK$'000	2019 HK$'000
Within 1 month	33,220	61,380
1 to 2 months	20,615	26,004
2 to 3 months	3,429	10,971
Over 3 months	102,080	80,630
	159,344	178,985

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

25. OTHER PAYABLES AND ACCRUALS

	Notes	2020 HK$'000	2019 HK$'000
Other payables	(a)	**82,197**	42,995
Accruals		**31,115**	34,025
Contract liabilities	(b)	**9,795**	14,041
Refund liabilities		**5,594**	6,224
Retention payable	(c)	**32,181**	30,173
		160,882	127,458
Portion classified as non-current	(c)	**(50,564)**	(30,173)
Current portion		**110,318**	97,285

Notes:

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

(b) Details of contract liabilities are as follows:

	31 December 2020 HK$'000	31 December 2019 HK$'000	1 January 2019 HK$'000
Short-term advances received from customers			
Sale of goods	**9,480**	13,786	7,498
Rendering of services	**315**	255	369
Total contract liabilities	**9,795**	14,041	7,867

Contract liabilities include short-term advances received for the sale of goods and rendering of services. The decrease in contract liabilities in 2020 was mainly due to the decrease in short-term advances received from customers in relation to the sale of goods and rendering of services.

(c) The non-current portion of other payables mainly represents the retention money held by the Group with respect to the Group's plants and properties under construction which will be paid in a period over twelve months from 31 December 2020.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank overdraft — secured (a)	1.85–5.25	On demand	15,591	3.75–4.25	On demand	9,592
Bank overdraft — unsecured (a)	–	–	–	4.75–5.25	On demand	7,988
Bank loans — secured	2.25–5.27	On demand	50,179	1.75–6.28	On demand	94,890
Bank loans and other borrowings-secured (a)	0.85–9.00	2021	124,787	0.85–6.17	2020	90,984
Bank loans — unsecured (a)	2.80–4.91	On demand	20,735	3.10–5.50	On demand	55,088
Bank loans — unsecured	4.50–6.18	2021	57,537	4.35–9.00	2020	53,740
Other borrowings — unsecured	8.50	2021	10,500	—	—	—
			279,329			312,282
Non-current						
Bank loans and other borrowings — secured	0.85–8.00	2022–2030	86,754	0.85–8.00	2021–2029	58,369
Bank loans — unsecured	4.50–6.18	2022–2027	60,902	4.50–6.18	2021–2027	85,346
Other borrowings — unsecured	7.00–10.00	2022–2023	31,336	—	—	—
			178,992			143,715
			458,321			455,997

	2020 HK$'000	2019 HK$'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	279,329	312,282
In the second year	20,555	60,659
In the third to fifth years, inclusive	103,070	37,870
Beyond five years	55,367	45,186
	458,321	455,997

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

Interest-bearing bank and other borrowings are denominated in:

	2020 HK$'000	2019 HK$'000
HK$	**107,872**	163,861
RMB	**338,837**	281,732
JPY	**4,480**	3,272
US$	**7,132**	7,132
	458,321	455,997

(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$86,505,000 (2019: HK$167,558,000) include a repayment on demand clause under the relevant loan agreements, among which a balance of HK$13,548,000 (2019: HK$27,150,000) that is repayable after one year from the end of 2020 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 2020, the Group's bank loans amounting to approximately HK$42,873,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since these bank loans would become mature within 12 months and included repayable on demand clause as mentioned above in 26(a) which have already been classified as current liabilities.

As at 31 December 2019, the Group's bank loans amounting to approximately HK$150,208,000 were not in compliance with certain financial loan covenants. No further reclassification is needed regarding these bank loans since 1) bank loans amounting to HK$27,150,000 included the repayment on demand clause and have already been classified as current liabilities as mentioned in note 26(a); and 2) bank loans amounting HK$123,058,000 would become mature within 12 months and included repayable on demand clause as mentioned above in 26(a) which have already been classified as current liabilities.

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

(c) As at 31 December 2020, the Group's facilities of bank and other borrowings amounted to HK$519,809,000 (2019: HK$536,168,000), of which HK$458,321,000 (2019: HK$455,997,000) had been utilised.

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

		Carrying value	
	Notes	**2020 HK$'000**	2019 HK$'000
Property, plant and equipment	13	**142,575**	182,374
Right-of-use assets	15	**33,588**	80,099
Financial assets at fair value through profit or loss	18	**18,258**	18,195
Inventories	19	**41,717**	39,113
Trade and bills receivables	21	**34,124**	62,727
Pledged bank deposits	23	**35,056**	25,115
		305,318	407,623

(e) As at 31 December 2020, the Group's bank loans of HK$31,548,000 were borrowed under the SME Financing Guarantee Scheme (the "Scheme"), and the relevant balances were guaranteed by the Government of Hong Kong Special Administrative Region and a personal guarantee by Mr. Abraham Chan, as required under the Scheme.

27. LOANS FROM A DIRECTOR

	2020 HK$'000	2019 HK$'000
Loans from a Director	**—**	15,000

On 14 March 2018, the Group entered into a loan agreement with Mr. Abraham Chan, in which Mr. Abraham Chan agreed to make loan facility up to HK$50 million to the Group for financing the general corporate funding requirements. The loans were fully repaid to the director during the year ended 31 December 2020.

The shareholder's 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.

28. GOVERNMENT GRANTS

	2020 HK$'000	2019 HK$'000
At 1 January	**3,686**	5,552
Government grants received during the year	**68,321**	10,329
Amounts released to the statement of profit or loss (note 5)	**(65,799)**	(12,053)
Exchange realignment	**394**	(142)
At 31 December	**6,602**	3,686
Portion classified as current liabilities	**(2,749)**	(1,648)
Non-current portion	**3,853**	2,038

29. DEFERRED TAX

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

Deferred tax assets

	2020				
	Tax loss available for offsetting against future taxable profits HK$'000	Government grants HK$'000	Unrealised profit on inventories HK$'000	Accrual and provisions HK$'000	Total HK$'000
At 1 January 2020	6,592	553	1,430	7,341	15,916
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	(3,430)	34	(447)	(1,287)	(5,130)
Exchange realignment	56	39	–	410	505
Gross deferred tax assets at 31 December 2020	3,218	626	983	6,464	11,291

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

29. DEFERRED TAX (continued)

Deferred tax liabilities

	2020 Depreciation and amortisation allowance in excess of related depreciation and amortisation HK$'000
At 1 January 2020	**6,160**
Deferred tax credited to the statement of profit or loss during the year (note 10)	**(2,962)**
Exchange realignment	**37**
Gross deferred tax liabilities at 31 December 2020	**3,235**

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

29. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 HK$'000	2019 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**11,291**	12,363
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(3,235)**	(2,607)
	8,056	9,756

Pursuant to the Corporate Income Tax Law of the People's Republic of China, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the Directors, based on the Group's expansion plan in Mainland China and the cash flow generated in Hong Kong, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. As at 31 December 2020, the amounts of temporary difference associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$239,678,000 (2019: HK$234,762,000).

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

30. SHARE CAPITAL

Shares

	2020 HK$'000
Authorised: 50,000,000,000 ordinary shares of US$0.1 (HK$0.775) each	38,750,000
Issued and fully paid: 394,892,941 ordinary shares of US$0.1 (HK$0.775) each	306,042

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

30. SHARE CAPITAL (continued)

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

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

	2020			
	Number of shares in issue	**Share capital HK$'000**	**Share premium account HK$'000**	**Total HK$'000**
At 1 January 2020	**263,261,961**	**204,028**	**224,484**	**428,512**
Effect of right issue on 2 March 2020 (note b)	**131,630,980**	**102,014**	**3,291**	**105,305**
Share issue expenses	**–**	**–**	**(7,257)**	**(7,257)**
Transfer of vested shares under Share Award Scheme (note 31(b))	**–**	**–**	**140**	**140**
At 31 December 2020	**394,892,941**	**306,042**	**220,658**	**526,700**

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

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

31. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share option scheme

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

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

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

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

On 9 May 2019 (the "Date of Grant"), the board of the directors of the Group has resolved to grant share options to certain directors and employees of the Company, entitling them to subscribe for a total of 6,376,000 ordinary shares of the Company (the "Granted Share Options"). The exercise price and the number of shares were adjusted upon the completion of the rights issue on 2 March 2020.

On 24 July 2020, 16,124,000 options were granted to five directors and certain employees of the company, entitling them to subscribe for a total of 16,124,000 shares at the exercise price of HK$0.8 per share, conditional upon the grantee accepting the grant. Among the options resolved to grant, 4 employees did not accepted the grant and out of the 16,124,000 options, 800,000 options were not granted eventually. As a result, only 15,324,000 options were granted for the year ended 31 December 2020.

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

(a) Share option scheme (continued)

The following share options were outstanding under the Scheme during the year:

	2020 Weighted average exercise price HK$ per share	2020 Number of options '000	2019 Weighted average exercise price HK$ per share	2019 Number of options '000
At 1 January	2.40	6,376	–	–
Effect of Rights Issue (Note)	(0.10)	267	–	–
Granted during the year	0.80	15,324	2.40	6,376
Forfeited during the year	2.30	(170)	–	–
At 31 December	1.25	21,797	2.40	6,376

Note: As a result of the completion of the Rights Issue (note 30(b)), assuming no other adjustment events under the terms and conditions of the Share Option Scheme having been triggered and pursuant to (i) the terms and conditions of Share Option Scheme; and (ii) Chapter 17 of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding adjustment of share options under Rule 17.03(13) of the Listing Rules, the exercise price of the Share Options and the number of Shares which may fall to be issued upon exercise of the subscription rights attaching to the Share Options has been adjusted.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2020

Number of options	Exercise price	Vesting date	Exercise period
3,057,928*	HK$2.3*	10 May 2020	From vesting date to 9 May 2029
3,057,928*	HK$2.3*	10 May 2021	From vesting date to 9 May 2029
178,922*	HK$2.3*	10 May 2022	From vesting date to 9 May 2029
178,922*	HK$2.3*	10 May 2023	From vesting date to 9 May 2029
7,688,667	HK$0.8	23 July 2021	From vesting date to 23 July 2030
7,168,667	HK$0.8	23 July 2022	From vesting date to 23 July 2030
466,666	HK$0.8	23 July 2023	From vesting date to 23 July 2030
21,797,700*			

* The number of options and exercise price was adjusted upon the completion of Rights issue.

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

(a) Share option scheme (continued)

2019

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

Details of the share option expenses during the year ended 31 December 2020 are listed as below:

	2020 HK$'000	2019 HK$'000
Share option expenses recognised during the year*	4,621	3,645
Less: Included in directors' remuneration (note 8)	(4,295)	(3,290)
Employee benefit expenses	326	355

The fair value of the share options granted during 2020 and 2019 was HK$4,453,000 and HK$7,893,000 respectively, of which the Group recognised a share option expense of HK$4,621,000 in aggregate (2019: HK$3,645,000) during the year ended 31 December 2020.

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

(a) Share option scheme (continued)

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

	31 December 2020
Dividend yield (%)	0.00
Expected volatility (%)	43.80
Historical volatility (%)	43.80
Risk-free interest rate (%)	0.90
Expected life of options (year)	10
Weighted average share price (HK$ per share)	0.65

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

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

As at 31 December 2020, the Company had 21,797,700 share options outstanding under the Scheme, which represented approximately 5.5% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 21,797,700 additional ordinary shares of the Company and additional equity amount of HK$27,149,000 (before share issue expenses).

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

(b) Shares held for the share award scheme

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

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

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

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

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

Shareholdings of Share Award Scheme Trust

As at 31 December 2020, the Share Award Scheme Trust held 1,916,000 (31 December 2019: 2,206,000) shares of the Company. During the year ended 31 December 2020, no share (2019: nil) was purchased by the Share Award Scheme Trust through the Stock Exchange and a total of 290,000 (2019: 290,000) shares were vested on 16 June 2020.

Granted Award shares

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

Two of the Eligible Award Participants, who were granted Award Shares on 16 June 2017, have resigned during the year ended 31 December 2019, and therefore their 210,000 unvested shares of Award Shares were forfeited.

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

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

Granted Award shares (continued)

On 25 August 2020, the board of the directors of the Company resolved to grant share awards in respect of a total of 1,000,000 shares to a newly appointed executive director in 2020 as an Eligible Award Participants.

Summary of the Award Shares granted is as follows:

Date of grant	Number of outstanding Awarded Shares as at 1 January 2020	Fair value	Vesting date	Number of Awarded Shares		
				Vested during the current period	Granted during the current period	Outstanding as at 31 December 2020
		HK$'000				
16 June 2017	290,000	1,082	16 June 2020	(290,000)	—	—
16 June 2017	290,000	1,082	16 June 2021	—	—	290,000
16 June 2017	145,000	541	16 June 2022	—	—	145,000
25 August 2020	—	—	1 January 2021	—	333,333	333,333
25 August 2020	—	—	1 February 2021	—	83,333	83,333
25 August 2020	—	—	1 March 2021	—	83,333	83,333
25 August 2020	—	—	1 April 2021	—	83,333	83,333
25 August 2020	—	—	1 May 2021	—	83,333	83,333
25 August 2020	—	—	1 June 2021	—	83,333	83,333
25 August 2020	—	—	1 July 2021	—	83,333	83,333
25 August 2020	—	—	1 August 2021	—	83,333	83,333
25 August 2020	—	—	1 September 2021	—	83,336	83,336
	725,000	2,705		(290,000)	1,000,000	1,435,000

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

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

Details of the equity-settled share award expenses of the Group during the year ended 31 December 2020 are listed as below:

	2020 HK$'000	2019 HK$'000
Gross amount of recognition of share award expenses	1,020	1,113
Forfeited during the year	—	(535)
Net share award expenses recognised during the year	1,020	578
Less: Included in directors' remuneration (note 8)	(738)	(478)
Employee benefit expenses	282	100

32. RESERVES

Surplus reserves

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

Capital reserve

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

Merger reserve

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

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year 2020, harvested raw Chinese herbs of HK$10,537,000 were transferred to inventories (2019: HK$26,057,000).

During the year 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$32,584,000 (2019: HK$29,173,000) and HK$32,584,000 (2019: HK$29,173,000), respectively, in respect of lease arrangements for land and buildings, machinery and equipment.

During the year 2020, the group had offset the trade receivables with trade payables of HK$10,281,000 and HK$10,281,000 respectively, in respect of the offsetting arrangements with these customers.

(b) Changes in liabilities arising from financing activities:

	Lease liabilities HK$'000	**Interest Payable HK$'000**	**Loans from a director HK$'000**	**Bank loan and other borrowings HK$'000**
At 1 January 2020	**70,536**	**3,882**	**15,000**	**455,997**
Changes from net financing cash flows	**(40,430)**	**(28,644)**	**(15,000)**	**(17,587)**
Interest expense	**4,528**	**26,608**	**—**	**—**
New leases	**32,584**	**—**	**—**	**—**
Disposal	**(1,161)**	**—**	**—**	**—**
Covid-19-related rent concessions from lessors	**(1,970)**	**—**	**—**	**—**
Exchange realignment	**1,703**	**—**	**—**	**19,911**
At 31 December 2020	**65,790**	**1,846**	**—**	**458,321**

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

(c) Total cash outflow for leases

The cash outflow for leases were all included in the financing activities in the Group's consolidated statement of cash flows for the year ended 31 December 2020.

34. COMMITMENTS

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

	2020 HK$'000	2019 HK$'000
Contracted, but not provided for:		
Buildings	22,375	26,579
Plant and machinery	1,212	8,142
	23,587	34,721

35. CONTINGENT LIABILITIES

For the year ended 31 December 2019, an action was brought in the PRC against a subsidiary of the Group by a party alleging that the subsidiary of the Group breached and repudiated four contracts regarding purchase of Chinese raw herbs (including seedling products) (the "Agreements"). Since the plaintiff of the action had not yet provided the evidence regarding the aforesaid claims, the Group has made provision of HK$4.0 million for the year ended 31 December 2019, for the probability-weighted outcomes might arise from the action (including related legal and other costs) according to the advice from the Group's legal counsel and available evidence on hand in 2019.

In mid-January 2021, the Company received the judgment made by the PRC Court against the subsidiary of the Group and the Group has therefore accrued additional HK$11.7 million provision for such litigations cases according to the first-instance judgment of the PRC court for the year ended 31 December 2020. The Group has filed an appeal against the first-instance judgment of the court and the appeal is still in progress up to the date of this report.

36. RELATED PARTY TRANSACTIONS

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

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

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

36. RELATED PARTY TRANSACTIONS (continued)

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

	Notes	2020 HK$'000	2019 HK$'000
Loans from a director	(i)	—	15,000
Repayment of a loan from a director	(i)	15,000	—
Interest expense to a director	(i)	107	1,420
Capitalisation of loans from a director	(ii)	—	30,000
Professional service fees	(iii)	572	503
Acquisition of intangible assets	(iv)	9,900	—
		25,579	46,923

Notes:

(i) On 14 March 2018, the Group entered into a loan agreement with Mr. Abraham Chan, in which Mr. Abraham Chan agreed to make loan facility up to HK$50 million to the Group for financing the general corporate funding requirements. During the year ended 31 December 2020, the Group repaid HK$15 million (2019: draw down HK$15 million) for such facility. The interest expense in relation to the aforesaid loans was at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to loans offered by the banks to the Group.

(ii) On 2 September 2019, 15,544,041 new shares of US$0.1(HK$0.775) each were issued at a price of HK$1.93 per to Mr. Abraham Chan for capitalising the corresponding Group's loans due to him amounting to HK$30,000,000 (the "Capitalisation Issue"). Further details about the Capitalisation Issue are set out in the announcement dated 12 June 2019 and circular dated 24 July 2019 issued by the Company. No such transaction during the year 2020.

(iii) The professional service fees were paid to Edtoma and CWCC under prices mutually agreed by both parties. The Directors consider that the service charges offered by the suppliers were in line with the Group's other suppliers.

(iv) The acquisition of intangible assets representing the transfer of the titles, interests and rights of Chinese medicine management software developed by HerbMiners to the Group. The consideration for the acquisition was determined after arm's length negotiation with reference to approximately 17.8% discount of the actual cost of development of the said software developed by HerbMiners.

36. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balance with related parties:

	Notes	2020 HK$'000	2020 Maximum amount outstanding HK$'000	2019 HK$'000	2019 Maximum amount outstanding HK$'000
Loans from a director:					
Mr. Abraham Chan	(i)	–	15,000	15,000	45,000
Amount due to a related company					
HerbMiners	(ii)	5,900	9,900	—	—

(i) The loans from a director is unsecured, repayable on demand and bears interest at the rate of 1-month HIBOR plus 2.5% per annum which is determined according to prices and conditions similar to those offered by the banks to the Group.

(ii) The balance with HerbMiners was unsecured, interest-free and settled on terms of three months.

(d) As at 31 December 2020, the Group's bank loans of HK$31,548,000 were borrowed under the SME Financing Guarantee Scheme (the "Scheme"), and the relevant balances were guaranteed by the Government of Hong Kong Special Administrative Region and personal guarantee by Mr. Abraham Chan, as required under the Scheme.

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

	2020 HK$'000	2019 HK$'000
Salaries, allowances and benefits in kind	5,123	3,077
Equity-settled share award and share option expenses	4,421	3,712
Pension scheme contributions	60	54
	9,604	6,843

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

Financial assets

	Financial assets at fair value through profit or loss HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	18,258	—	18,258
Trade and bills receivables	—	221,528	221,528
Financial assets included in prepayments, other receivables and other assets	—	22,129	22,129
Pledged bank deposits	—	35,056	35,056
Cash and cash equivalents	—	91,401	91,401
	18,258	370,114	388,372

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	159,344
Financial liabilities included in other payables and accruals	83,904
Lease liabilities	65,790
Interest-bearing bank and other borrowings	458,321
Amount due to a related company	5,900
	773,259

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2019

Financial assets

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

Financial liabilities

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

38. TRANSFERS OF FINANCIAL ASSETS

At 31 December 2020, PuraPharm Nanning, a subsidiary of the Group, endorsed certain bills receivable accepted by a bank in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of HK$6,604,000 (2019: HK$13,560,000). The Derecognised Bills had a remaining maturity of approximately one to five months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

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

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments in above tables in note 37 were reasonably approximate to their fair values.

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

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

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

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

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

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

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

There were no transfers of fair value measurements during the year ended 31 December 2020.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

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

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

Increase/(decrease) in the Group's profit before tax

	2020	2019
	HK$'000	HK$'000
If decrease by 100 basis points	**2,943**	2,553
If increase by 100 basis points	**(2,943)**	(2,553)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity for the years ended 31 December 2020 and 2019 to a reasonably possible change by 5% in the HK$ exchange rates against RMB and Japanese Yen ("JPY"), with all other variables held constant, of the Group's profit before tax due to changes in the fair values of monetary assets and liabilities.

	2020	2019
	HK$'000	HK$'000
If RMB weakens against HK$ by 5%		
Decrease in profit before tax	**21,841**	14,633
If RMB strengthens against HK$ by 5%		
Increase in profit before tax	**(21,841)**	(14,633)
If JPY weakens against HK$ by 5%		
Decrease in profit before tax	**(764)**	(321)
If JPY strengthens against HK$ by 5%		
Increase in profit before tax	**764**	321

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

Maximum exposure and year-end staging

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

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade and bills receivables*	—	—	—	248,292	248,292
Financial assets included in prepayments, other receivables and other assets					
— Normal**	22,129	—	—	—	22,129
Pledged deposits					
— Not yet past due	35,056	—	—	—	35,056
Cash and cash equivalents					
— Not yet past due	91,401	—	—	—	91,401

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade and bills receivables*	—	—	—	230,734	230,734
Financial assets included in prepayments, other receivables and other assets					
— Normal**	33,789	—	—	—	33,789
Pledged deposits					
— Not yet past due	25,115	—	—	—	25,115
Cash and cash equivalents					
— Not yet past due	68,009	—	—	—	68,009

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

	2020					
	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	86,504	51,276	156,326	148,592	60,199	502,897
Trade and bills payables	–	154,995	4,349	–	–	159,344
Other payables	–	83,904	–	–	–	83,904
Lease liabilities	–	7,802	18,721	36,429	8,009	70,961
Amount due to a related company	–	2,000	3,900	–	–	5,900
	86,504	299,977	183,296	185,021	68,208	823,006

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Note: As at 31 December 2020, interest-bearing bank borrowings in the amount of HK$86,505,000 (2019: HK$167,558,000) include a repayment on demand clause in the loan agreements giving the banks the unconditional right to call in the loans at any time; or were not in compliance with certain financial loan covenants and the respective cash loans would become callable, therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

Notwithstanding the above clause, the Directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the end of the reporting period, the Group's compliance with the loan covenants, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the contractual undiscounted payments as at 31 December 2020 and 2019 are as follows:

Year ended 31 December	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2020	**50,005**	**62,065**	**169,000**	**162,914**	**60,199**	**504,183**
2019	157,341	63,200	101,759	170,478	15,159	507,937

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2020.

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent. Net debt includes interest-bearing bank borrowings and loans from a director. The gearing ratios as at the end of the reporting periods were as follows:

	2020 HK$'000	2019 HK$'000
Interest-bearing bank and other borrowings	**458,321**	455,997
Loans from a director	**—**	15,000
Net debt	**458,321**	470,997
Equity attributable to owners of the parent	**511,658**	362,123
Gearing ratio	**0.9**	1.3

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS		
Right-of-use assets	1,155	2,311
Investments in subsidiaries	—	—
Total non-current assets	1,155	2,311
CURRENT ASSETS		
Prepayments, deposits and other receivables	447,321	350,750
Cash and cash equivalents	127	977
Total current assets	447,448	351,727
CURRENT LIABILITIES		
Other payables and accruals	1,460	2,382
Interest-bearing bank and other borrowings	10,500	3,436
Lease liabilities	1,197	1,155
Total current liabilities	13,157	6,973
NET CURRENT ASSETS	434,291	344,754
TOTAL ASSETS LESS CURRENT LIABILITIES	435,446	347,065
NON-CURRENT LIABILITIES		
Lease liabilities	—	1,197
Total non-current liabilities	—	1,197
Net assets	435,446	345,868
EQUITY (note)		
Share capital	306,042	204,028
Shares held for share award scheme	(6,258)	(7,200)
Reserves	135,662	149,040
Total equity	435,446	345,868

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

Note:

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

	Share capital HK$'000	Share premium HK$'000	Shares held for share award scheme HK$'000	Reserve for share award and share option HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2019	191,981	206,811	(8,200)	2,382	(1,493)	391,481
Loss for the year	–	–	–	–	(79,475)	(79,475)
Capitalisation of loans from a director	12,047	17,953	–	–	–	30,000
Share issue expense	–	(361)	–	–	–	(361)
Recognition of equity-settled share award expenses	–	–	–	1,113	–	1,113
Forfeiting of Award Shares granted under Share Award Scheme	–	–	–	(535)	–	(535)
Transfer of vested shares under Share Award Scheme	–	81	1,000	(1,081)	–	–
Recognition of equity-settled share option expenses	–	–	–	3,645	–	3,645
At 31 December 2019 and at 1 January 2020	204,028	224,484*	(7,200)	5,524*	(80,968)*	345,868
Loss for the year	–	–	–	–	(14,111)	(14,111)
Issue of shares	102,014	3,291	–	–	–	105,305
Share issue expense	–	(7,257)	–	–	–	(7,257)
Recognition of equity-settled share award expenses	–	–	–	1,020	–	1,020
Transfer of vested shares under Share Award Scheme	–	140	942	(1,082)	–	–
Recognition of equity-settled share option expenses	–	–	–	4,707	–	4,707
Forfeiting of share option	–	–	–	(86)	–	(86)
At 31 December 2020	306,042	220,658*	(6,258)	10,083*	(95,079)*	435,446

* These reserve accounts comprise the reserves of HK$135,662,000 (2019: HK$149,040,000) in the statement of financial position of the Company.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 25 March 2021.

PARTICULARS OF PROPERTIES

31 December 2020

INVESTMENT PROPERTIES

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

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**601,815**	695,879	745,503	591,566	535,986
Cost of sales	**(231,866)**	(297,040)	(290,603)	(195,708)	(187,182)
Gross profit	**369,949**	398,839	454,900	395,858	348,804
Other income and gains	**94,727**	17,467	49,615	31,162	10,796
Selling and distribution expenses	**(210,539)**	(226,212)	(229,995)	(191,753)	(154,380)
Administrative expenses	**(153,457)**	(228,482)	(217,026)	(206,987)	(154,001)
Impairment loss on property, plant and equipment	**(229)**	(19,063)	—	—	—
Impairment loss on right-of-use assets	**—**	(22,380)	—	—	—
Impairment loss on goodwill	**—**	(67,346)	—	—	—
Impairment loss on trade and bills receivables	**(10,831)**	(5,391)	—	—	—
Other expenses	**(22,573)**	(36,379)	(9,084)	(1,082)	(3,221)
Finance costs	**(26,830)**	(27,203)	(21,879)	(16,867)	(9,331)
PROFIT/(LOSS) BEFORE TAX	**40,217**	(216,150)	26,531	10,331	38,667
Tax	**(8,507)**	(11,108)	(5,725)	(8,442)	(6,505)
PROFIT/(LOSS) FOR THE YEAR	**31,710**	(227,258)	20,806	1,889	32,162
Attributable to:					
Owners of the parent	**31,710**	(227,258)	20,806	1,889	32,162

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**1,374,577**	1,222,242	1,333,103	1,293,977	860,248
TOTAL LIABILITIES	**(862,919)**	(860,119)	(770,884)	(744,895)	(405,743)
	511,658	362,123	562,219	549,082	454,505

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