LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock code : 2898

2010
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Dr. Chiu Ka Leung	*Chairman*
Ms. Yeh Shu Ping	*Vice-Chairman and Chief Executive Officer*
Mr. Jiao Shaoliang	*Executive Director*
Dr. Lu Pingguo	*Executive Director*
Mr. Lam Siu Hung	*Independent Non-executive Director*
Mr. Guo Guoqing	*Independent Non-executive Director*
Mr. Kwok Hok Lun	*Independent Non-executive Director*

AUDIT COMMITTEE

Mr. Lam Siu Hung	*Chairman*
Mr. Guo Guoqing	
Mr. Kwok Hok Lun	

REMUNERATION COMMITTEE

Dr. Chiu Ka Leung	*Chairman*
Ms. Yeh Shu Ping	*Vice-Chairman*
Mr. Lam Siu Hung	
Mr. Guo Guoqing	
Mr. Kwok Hok Lun	

COMPANY SECRETARY

Mr. Hui Pang To, *FCCA, CPA*

REGISTERED OFFICE

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

14th Floor,
Tower One,
Ever Gain Plaza,
No. 88 Container Port Road,
Kwai Chung,
Hong Kong.

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre,
8 Finance Street, Central,
Hong Kong.

LEGAL ADVISERS

As to Hong Kong law:

Hastings & Co.
5th Floor, Gloucester Tower,
The Landmark, 11 Pedder Street,
Central, Hong Kong.

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands.

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
HSBC Main Building,
1 Queen's Road Central, Hong Kong.

DBS Bank (Hong Kong) Limited
11th Floor, The Center,
99 Queen's Road Central, Hong Kong.

Fubon Bank (Hong Kong) Limited
Fubon Bank Building,
38 Des Voeux Road Central,
Hong Kong.

The Bank of East Asia, Limited
10 Des Voeux Road Central,
Hong Kong.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House,
68 Fort Street,
P.O. Box 609,
Grand Cayman KY1-1107,
Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F, Tesbury Centre,
28 Queen's Road East,
Hong Kong.

WEBSITE & STOCK CODE

www.longruntea.com
2898

To our shareholders

On behalf of the board of directors (the "Board") of Longrun Tea Group Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2010.

The Group started a new chapter of its development during the year under review. On 21 July 2009, the Company formally changed its name to "Longrun Tea Group Company Limited 龍潤茶集團有限公司" to reflect its new business focus and to mark the Group's launching of an entirely new development direction.

The Group now focuses on selling "Longrun"（龍潤）branded tea products in the People's Republic of China ("PRC" or "China"). "Longrun"（龍潤）is recognised as a premium brand of pu'erh tea products in Mainland China, having been listed among the "Top Ten Brands in Yunnan Province"(Yunnan Province being a major tea producing region in Mainland China), rated the most popular tea product in the country at the Fourth China Agricultural Trade Fair, and selected by Diaoyutai State Guesthouse（釣魚臺國賓館）as the appointed pu'erh tea to serve visiting dignitaries. Following the appointment of 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited) by Coca Cola (China) Beverages Limited as the licensed supplier of tea products at the 2008 Beijing Olympics, it has also been selected this year as the authorised manufacturer of tea products for World Expo 2010 held in Shanghai, China, reflecting the significant presence and reputation of the "Longrun"（龍潤）brand in the country.

The tea product market in China is booming and enjoys the support of China's Central Government. Under the National Key Tea District Development Plan (2009-2015) announced by the General Office of The Ministry of Agriculture in May 2009, Yunnan Province was designated as a key special tea district for southwest red tea and pu'erh tea. The Plan requires all levels of government to place high emphasis on the development of the tea industry and increase support through lending, promoting and guiding tea processing, and encouraging and providing incentives for corporations and tea farmers to increase investment. With the Chinese economy growing rapidly, consumers in Mainland China with rising disposable incomes as well as aspirations for a higher quality of life have a strong demand for branded and international tea products. Given the supportive government policies and favourable market environment, the Group intends to step up efforts in growing the distribution business of "Longrun"（龍潤）branded tea products and other food products and actively expanding its distribution network, including self-operated and franchised stores, in a bid to develop into a leading tea products distributor.

Looking ahead, the Group will continue to devote more resources into expanding its tea and other food products distribution business, including opening more self-operated and franchised stores in the first and second tier cities throughout Mainland China to expand its footprint and to capture a larger market share in China's tea market. We will continue to look for profitable business opportunities, including achieving diverse expansion through mergers and acquisitions of different blends of tea products beyond pu'erh tea. We will also accelerate the integration of internal resources to further develop the Group's tea and other food products distribution business and create synergies between different products and resources to expedite the Group on the path towards long term rapid growth.

APPRECIATION

I would like to express my sincere thanks to all Board members for their support of the strategic development of the Group in the past year. On behalf of the Board, I would also like to convey my gratitude to all business partners, shareholders and customers for their valuable cooperation. With our dedicated and experienced management team working hand-in-hand and growing with the Group, I am confident that the Group can capture every opportunity in the coming year and beyond and deliver long-term and stable returns to our shareholders.

Chiu Ka Leung
Chairman

Hong Kong, 9 July 2010

Management Discussion and Analysis

FINANCIAL RESULTS

The Group's turnover for the year ended 31 March 2010 surged 313% to HK$160,121,000 (2009: HK$38,781,000), mainly attributable to the favourable performance of the tea and other food products business. Gross profit was HK$75,489,000, an increase of 235% compared to HK$22,533,000 last year.

Loss for the year attributable to owners increased to HK$30,614,000 (2009: HK$5,507,000), mainly due to the expenses incurred by the issuance of share options and the convertible bonds during the year under review. Basic loss per share was HK3.07 cents (2009: HK0.92 cent). Excluding the expenses incurred in relation to the issuance of share options and convertible bonds, the Group was able to achieve a turnaround in its operation and achieved profit after tax of HK$24,839,000.

BUSINESS REVIEW

2009 marked a new chapter in the Group's development. On 25 May 2009, the Group announced the acquisition of the entire issued share capital of Longrun Tea Wealth Creation Company Limited（龍潤茶業創富有限公司）at a consideration of HK$160,000,000, marking its entry into the lucrative tea market in the PRC. The Company was subsequently renamed as "Longrun Tea Group Company Limited 龍潤茶集團有限公司" on 21 July 2009 to reflect its new business focus.

During the year under review, the Group distributed tea and other food products under the well-established "Longrun"（龍潤）brand in the PRC market. "Longrun"（龍潤）is a premium brand for tea products in Mainland China. It is among the "Top Ten Brands in Yunnan" and was rated the most popular tea product in the country at the Fourth China Agricultural Trade Fair. It has also been selected by Diaoyutai State Guesthouse（釣魚臺國賓館）as the appointed pu'erh tea. Previously 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited), a related company and the supplier of tea products of the Company, was also licensed by Coca Cola (China) Beverages Limited as the supplier of tea products at the 2008 Beijing Olympics. To further promote the brand and the branded quality tea, the Group has been active in expanding its distribution network including both self-operated and franchised stores.

Though the tea and other food products business had not yet reached a full year of operation, this segment had already generated revenue of approximately HK$122,807,000, accounting for approximately 76.70% of the Group's total turnover. The tea and other food products business recorded an operating net profit margin of 45%. With a full year's contribution starting next year, the tea and other food products business would definitely be the future growth driver of the Group.

During the year under review, the Group also continued to operate its healthcare products business in steady fashion. Revenue from this division was approximately HK$37,314,000, accounting for approximately 23.30% of the Group's total revenue. "Beauty and Healthy"（排毒美顏寶）continued to be the Group's main revenue contributor in the healthcare products business and accounted for over 7.3% (2009: 42.7%) of the total turnover during the year. Among the more popular products, "Chen Xiang Lu Bai Lu Pian"（陳香露白露片）, the indigestion remedy under the brandname "Yanta Pai"（雁塔牌）, reported the second best sales in the healthcare products business of the Group and accounted for 5.7% (2009: 22.7%) of the total revenue of the Group.

PROSPECTS

"Longrun"（龍潤）is a premium brand for tea products in Mainland China and the Group will continue to strengthen the leading position of this brand in the region. 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited) has been designated as the authorised manufacturer of tea products for World Expo 2010 held in Shanghai, China. Looking ahead, the Group will continue to invest more resources in expanding its tea and other food products business. It plans to extend its footprint by opening up more self-operated stores or franchised stores in the first and second tier cities in Mainland China, thus capturing a greater market share in the PRC tea market and achieving better economies of scale. In addition, the Group is exploring business opportunities in the region relating to manufacturing and distribution of other major types of tea products in Mainland China.

The Group expects the prospects of its tea and other food products business in the PRC to remain rosy and the business opportunities arising from the tea market to be enormous. The Group is poised to expand aggressively in PRC tea market. The Group will continue to grow its tea business through mergers and acquisitions of different blends of tea products beyond pu'erh tea in order to enhance the Group's diverse expansion within the tea market and to create synergies between different products and resources.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2010, the Group had current assets of HK$143,824,000 (2009: HK$30,175,000) and cash and bank balances of HK$44,262,000 (2009: HK$5,599,000). The Group's current liabilities as at 31 March 2010 was HK$37,202,000 (2009: HK$24,667,000).

As at 31 March 2010, total equity was HK$303,642,000 (2009: HK$49,579,000). All the convertible bonds of the Company were converted into shares in February 2010. Accordingly, there were no outstanding convertible bonds of the Company as at 31 March 2010. The Group had interest-bearing bank and other borrowings of HK$18,224,000 as at 31 March 2010 (2009: HK$20,451,000). The gearing ratio as at 31 March 2010, being the ratio of total liabilities to total equity, was 19.3% (2009: 74.8%).

EMPLOYEES

As at 31 March 2010, the Group had 256 employees (2009: 206 employees).

The remuneration policy and package for the Group's employees are reviewed and approved by the Board on a periodical basis. The Group remunerates its employees based on industry practice and performance of individual employees. The Group also makes available a share option scheme and offers discretionary bonuses to its employees.

CONTINGENT LIABILITIES

As at 31 March 2010, the Company provided a guarantee to a bank in connection with the banking facilities of HK$6,000,000 (2009: HK$6,000,000) granted to the Company's subsidiary.

EXCHANGE RISK

The Group's revenues and costs are mainly denominated in Hong Kong dollars and Renminbi. Since the Hong Kong dollar remains pegged to the US dollar and Renminbi has been pegged to a basket of currencies, the Group does not foresee substantial risks from exposure to fluctuations in the US dollar and Renminbi exchange rates.

PLEDGE OF THE GROUP'S ASSETS

As at 31 March 2010, the Company provided a guarantee to a bank in connection with the banking facilities of HK$6,000,000 (2009: HK$6,000,000) granted to the Company's subsidiary, and the Group's bank deposits of approximately HK$375,000 (2009: HK$375,000) and leasehold land and buildings with an aggregate net book value of approximately HK$27,248,000 (2009: HK$28,428,000) were pledged to secure banking facilities granted to the Group.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Chiu Ka Leung, aged 46, is the founder of the Group. He is the Chairman of the Board and of the Remuneration Committee, a member of the Executive Committee, an executive director of the Company and a director of certain subsidiaries of the Company. Dr. Chiu is responsible for strategic planning and overall management of business operations of the Group. Dr. Chiu graduated from 雲南省楚雄醫藥高等專科學校 (Yunnan Provincial Chuxiong Medical College) in Mainland China in 1985 with a certification in pharmacy, and has been involved in pharmaceutical research for over ten years. Prior to founding the Group, he was a pharmacist in 雲南省紅十字會醫院 (Yunnan Provincial Red Cross Hospital) in Mainland China for five years. Dr. Chiu received a master's degree in industrial economics from 中國社會科學院研究生院 (Graduate School of Chinese Academy of Social Sciences) in 1998. In 2006, Dr. Chiu obtained a doctorate degree of corporate management from 中國人民大學 (Renmin University of China), and passed the qualification examination and was awarded the title of Researcher from 雲南省中青年破格晉升高級職務評審委員會 (Evaluation Committee of Young Professionals of Yunnan Province) in the same year. He was also appraised by the provincial government in Yunnan as 雲南省有突出貢獻的優秀專業技術人才 in 2008. Dr. Chiu was awarded a 全國五一勞動獎 medal in 2009 and in 2010, he was also honoured with the title of 全國勞動模範. Dr. Chiu is the elder brother of Mr. Jiao Shaoliang (an executive director of the Company) and the brother-in-law of Dr. Lu Pingguo (an executive director of the Company). Longrun Tea Investment Company Limited and Longrun Tea Asset Management Company Limited, in which Dr. Chiu is the director of these two companies, have ceased to be the substantial shareholders of the Company with effect from 25 February 2010.

Ms. Yeh Shu Ping, aged 63, is the Vice-chairman of the Board and of the Remuneration Committee, the Chairman of the Executive Committee, the Chief Executive Officer and an executive director of the Company. She is also a director of various subsidiaries of the Company. She is responsible for the sales, marketing and promotion of the Group's products as well as managing the day-to-day operation of the Group's business. Ms. Yeh has worked as a nurse in hospital and clinic in Mainland China for about ten years. Before joining the Group in 1999, Ms. Yeh was a customer service manager of a hair-rebuild product company in Hong Kong. She has also worked in two health products companies in Hong Kong holding management positions in relation to customer services, sales, marketing and consulting prior to joining the Group. Ms. Yeh has extensive experience in sales and marketing of health supplement products. She is the mother of Mr. Han Ping, Joseph (the Vice-president of the Company).

Mr. Jiao Shaoliang, aged 36, is an executive director and a member of the Executive Committee of the Company. He is also a director of certain subsidiaries of the Company. Mr. Jiao is responsible for the business development of the Group. He was awarded a diploma in clinical medicine by 昆明醫學院 (Kunming Medical College) in Mainland China in 1999 and a master's degree in business administration majoring in international business by the University of La Verne, the United States in 2002. Before joining the Group in February 2002, Mr. Jiao has worked as a technician in the department of radiology of 雲南省腫瘤醫院 (Yunnan Provincial Tumor Hospital) in Mainland China for four years. Mr. Jiao is the younger brother of Dr. Chiu Ka Leung (the Chairman and controlling shareholder of the Company) and the brother-in-law of Dr. Lu Pingguo (an executive director of the Company).

Dr. Lu Pingguo, aged 38, is an executive director and a member of the Executive Committee of the Company. He is responsible for the daily management of the tea business of the Group. Prior to joining the Group in February 2009, Dr. Lu was a statistical programmer and consultant in a commercial firm in Canada, who was responsible for conducting statistical analysis and preparing statistical reports. He has over ten years of experience in the statistical analysis and consulting field. Dr. Lu was awarded a Master of Science degree in Statistics and a Doctor of Philosophy degree in Statistics by the University of Western Ontario, Canada. He was a member of American Statistical Association from 2005 to 2007. Dr. Lu is a brother-in-law of both Dr. Chiu Ka Leung (the Chairman and controlling shareholder of the Company) and Mr. Jiao Shaoliang (an executive director of the Company).

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Lam Siu Hung, aged 51, joined the Group in September 2004. He is an independent non-executive director, the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Lam is presently a practising Certified Public Accountant and is a fellow member of the Association of Chartered Certified Accountants. Mr. Lam is also a member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Securities Institute. Mr. Lam has over 20 years' experience in accounting, auditing, taxation and corporate finance.

Mr. Guo Guoqing, aged 47, joined the Group in August 2002. He is an independent non-executive director and a member of both the Audit Committee and the Remuneration Committee of the Company. Mr. Guo received his doctorate degree in economics from 中國人民大學 (Renmin University of China) in 1998. He is currently a professor at 中國人民大學工商管理學院 (School of Business of Renmin University of China) and a director of 中國人民大學中國市場營銷研究中心 (Marketing Research Center of China of Renmin University of China). His teaching and research interests are in the areas of marketing management.

Mr. Kwok Hok Lun, aged 34, joined the Group in October 2006. He is an independent non-executive director and a member of both the Audit Committee and the Remuneration Committee of the Company. Mr. Kwok has been an assistant solicitor of a Hong Kong law firm (the "Law Firm") for more than five years. He is responsible for the Law Firm's affairs including legal, human resources, administration and communication. Mr. Kwok was admitted as a solicitor in the High Court of the Hong Kong Special Administrative Region in 2001 and is a member of the Law Society of Hong Kong. He obtained his Bachelor of Laws (with Honours) in 1998 and Postgraduate Certificate in Laws in 1999 from City University of Hong Kong. Mr. Kwok's fields of practice mainly focus on property matters, company matters and civil litigation. He has experience in giving legal advice to multinational clients in Hong Kong.

Senior Management

Mr. Han Ping, Joseph, aged 40, is the Vice-president of the Company. Mr. Han is in charge of marketing and promotion of the Group's healthcare products. Mr. Han holds a bachelor's degree in business administration with a major in finance from the City University of New York, the United States. Before joining the Group in February 2001, Mr. Han has extensive experience in sales and marketing of herbal health products in Hong Kong and the United States and worked as a marketing director of a herbal health products company in Hong Kong for four years. Mr. Han is the son of Ms. Yeh Shu Ping (the Vice-chairman of the Company).

Mr. Lee Hing Cheung, Eric, aged 41, is the General Manager of the Company and is responsible for the Group's corporate development. Mr. Lee holds a Master of Science degree in Finance from the University of Strathclyde in the United Kingdom. Before joining the Group in July 2007, Mr. Lee has over 15 years of experience in investment banking and held senior positions in a number of reputable financial institutions in Hong Kong.

Mr. Hui Pang To, aged 41, is the Financial Controller and Company Secretary of the Company. Mr. Hui is responsible for the Group's corporate finance and accounting affairs. Mr. Hui is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Hui graduated from the Lingnan University with a bachelor degree with honour in business administration in 1997. Before joining the Group in February 1999, Mr. Hui has over ten years of experience in auditing, accounting and finance and worked with an international accounting firm in Hong Kong.

Corporate Governance Report

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 March 2010.

CORPORATE GOVERNANCE PRACTICES

The Company acknowledges the important roles of its Board in providing effective leadership and direction to the Group's business, and ensuring transparency and accountability of the Company's operations. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the year under review, the Company has complied with the code provisions set out in the CG Code, except for the code provisions A.4.2 and E.1.2. Key corporate governance principles and practices of the Company as well as details of the foregoing deviations of the code provisions are summarized below.

A THE BOARD

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in the attainment of the objective of ensuring effective functioning and growth of the Group and enhancing value to investors. All the directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request for independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The Executive Committee and the senior management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board has the full support of the senior management to discharge its responsibilities.

A2. Board Composition

The Board currently comprises the following directors:

Executive directors

Dr. Chiu Ka Leung	*(Chairman of the Board, Chairman of the Remuneration Committee and Member of the Executive Committee)*
Ms. Yeh Shu Ping	*(Vice-chairman of the Board, Chief Executive Officer, Chairman of the Executive Committee and Vice-chairman of the Remuneration Committee)*
Mr. Jiao Shaoliang	*(Member of the Executive Committee)*
Dr. Lu Pingguo	*(Member of the Executive Committee)*

Independent non-executive directors

Mr. Lam Siu Hung	*(Chairman of the Audit Committee and Member of the Remuneration Committee)*
Mr. Guo Guoqing	*(Member of both the Audit Committee and the Remuneration Committee)*
Mr. Kwok Hok Lun	*(Member of both the Audit Committee and the Remuneration Committee)*

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 with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise as required under the Listing Rules. The Company has also adopted the recommended best practice under the CG Code for having at least one-third of its Board members being independent non-executive directors.

The list of directors (by category) is set out under the section headed "Corporate Information" in this annual report and is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications of the Company.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group and for the exercise of independent judgement. Each executive director supervises specific areas of the Group's business in accordance with his/her expertise. The independent non-executive directors bring different business and financial expertise, experiences and independent judgement to the Board and they are invited to serve on the Board committees of the Company. Through participation in Board meetings, taking the lead in managing issues involving potential conflicts of interests and/or serving on Board committees, the independent non-executive directors have made contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

The biographical details of the directors of the Company as well as the relationships among them, if any, are set out under "Biographical Details of Directors and Senior Management" in this annual report.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

A3. Chairman and Chief Executive Officer

The roles and duties of the Chairman and the Chief Executive Officer of the Company are held by separate persons and have been clearly defined in writing in order to ensure a balance of power and authority and preserve a balanced judgement of views. Currently, Dr. Chiu Ka Leung takes up the role of Chairman of the Board and is responsible for the management of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner whereas Ms. Yeh Shu Ping is the Chief Executive Officer of the Company, taking care of the day-to-day management of the Group's business and implementing the Group's strategic plans and business goals.

A4. Appointment and Re-election of Directors

All directors of the Company are appointed for a specific term. Each executive director is engaged on a service agreement for a term of 2 years. The appointment may be terminated by either party by not less than 3 months' written notice. Each of the independent non-executive directors of the Company is appointed for a term of 1 year.

The Company has not set up a nomination committee and the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the succession planning of directors and assessing the independence of independent non-executive directors. The Company has adopted "Directors' Nomination Procedures" as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Besides, the procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association (the "Articles"). Pursuant to the Articles, all the existing directors are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meeting of the Company and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting of the Company held after his/her appointment. The code provision A.4.2 of the CG Code also stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the aforesaid provision of the CG Code and the Articles, Ms. Yeh Shu Ping and Mr. Lam Siu Hung retired by rotation and offered themselves for re-election at the Company's annual general meeting held on 28 August 2009 ("2009 AGM"). Besides, Dr. Lu Pingguo, who was appointed by the Board as a director with effect from 1 February 2009 to fill the vacancy left by the resignation of Mr. Lan Daoying, also submitted himself for re-election at the 2009 AGM. Such arrangement on shareholders' election of Dr. Lu Pingguo at the 2009 AGM instead of the first general meeting of the Company after his appointment held on 14 July 2009 deviated from the code provision A.4.2 of the CG Code. This arrangement was made as the directors of the Company considered that the dates of the two general meetings were close and the retirement and re-election of all the three directors at one general meeting, i.e. at the 2009 AGM, could provide a clearer picture to the Company's shareholders.

At the forthcoming annual general meeting of the Company (the "2010 AGM"), Mr. Jiao Shaoliang, Mr. Guo Guoqing and Mr. Kwok Hok Lun shall retire by rotation pursuant to the Articles. All of the above three retiring directors, being eligible, will offer themselves for re-election at the 2010 AGM. The Board recommended their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above three directors as required by the Listing Rules.

A4. Appointment and Re-election of Directors (Continued)

During the year ended 31 March 2010, the Board, through its meeting held on 17 July 2009 (in which Dr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. Lu Pingguo and Mr. Lam Siu Hung were present), performed the following work regarding matters relating to nomination of directors:

(i) Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;

(ii) Recommendation of the re-election of the retiring directors at the 2009 AGM; and

(iii) Assessment of the independence of all the Company's independent non-executive directors.

A5. Induction and Continuing Development for Directors

Each newly appointed director receives 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 Company and that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

A6. Board Meetings

A6.1 Board Practices and Conduct of Meetings

Schedules for regular Board meetings are normally agreed with the directors in advance in order to facilitate them to attend. In addition to the above, notice of at least 14 days is given of a regular Board meeting. For other Board and committee meetings, reasonable notice is generally given.

Draft agenda of each Board meeting is usually sent to all directors together with the notice in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting to provide them with materials relating to the transactions to be discussed in the meeting in order 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 Chief Executive Officer, Financial Controller, Company Secretary and other relevant senior management normally attend regular Board meetings and, where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Group.

The Company Secretary is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to directors for comments 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. According to the current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

A6. Board Meetings (Continued)

A6.2 Directors' Attendance Records

During the year ended 31 March 2010, 7 Board meetings were held, out of which 4 were regular meetings held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at these 7 Board meetings are set out below:

Name of Director	Attendance/ Number of Board Meetings
Executive directors	
Dr. Chiu Ka Leung	7/7
Ms. Yeh Shu Ping	7/7
Mr. Jiao Shaoliang	7/7
Dr. Lu Pingguo	7/7
Independent non-executive directors	
Mr. Lam Siu Hung	6/7
Mr. Guo Guoqing	3/7
Mr. Kwok Hok Lun	3/7

A6.3 Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Each director has been given a copy of the Own Code. Having made specific enquiry of all the Company's directors, they have complied with the Own Code and the Model Code throughout the year ended 31 March 2010.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

B. BOARD COMMITTEES

The Board has established three Board committees, namely, the Executive Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Company's website and are available to shareholders upon request. All the Board committees should report to the Board on their decisions or recommendations made.

All 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 expenses.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out in section A6.1 above.

B1. Executive Committee

The Executive Committee comprises all the executive directors of the Company with the Vice-chairman of the Board, Ms. Yeh Shu Ping, acting as the chairman of such Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decision. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Company.

B2. Remuneration Committee

The Remuneration Committee comprises a total of five members, being two executive directors, namely Dr. Chiu Ka Leung and Ms. Yeh Shu Ping, and three independent non-executive directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun. Accordingly, a majority of the members are independent non-executive directors. The chairman of the Remuneration Committee is Dr. Chiu Ka Leung.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of directors and members of senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

During the year ended 31 March 2010, no meeting of the Remuneration Committee was held. Subsequently, a meeting of the Committee was held in July 2010 (with the presence of all the Committee members except Mr. Guo Guoqing) for generally reviewing and discussing about the remuneration packages of the directors and senior management of the Group.

Details of the remuneration of each director of the Company for the year ended 31 March 2010 are set out in note 7 to the financial statements contained in this annual report.

B3. Audit Committee

The Audit Committee comprises the three independent non-executive directors of the Company with Mr. Lam Siu Hung, the chairman of the Audit Committee, possessing the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditors and making the relevant recommendation to the Board; and reviewing the Company's financial reporting system, internal control system and risk management system.

During the year ended 31 March 2010, the Audit Committee has held 3 meetings and performed the following major works:

– Overview and discussion of the audit planning for the year ended 31 March 2009 by the auditors of the Company;

– Review and discussion of the annual financial statements, results announcement and report for the year ended 31 March 2009, the related accounting principles and practices adopted by the Group and the relevant audit findings;

– Review and discussion of the internal control system of the Group;

– Discussion and recommendation of the re-appointment of the external auditors; and

– Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 September 2009 and the related accounting principles and practices adopted by the Group.

The external auditors were invited to attend all the above meetings to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters.

The attendance records of the foregoing 3 Audit Committee meetings are set out below:

Name of Audit Committee Member	**Attendance/ Number of Audit Committee Meetings**
Mr. Lam Siu Hung *(Chairman)*	3/3
Mr. Guo Guoqing	1/3
Mr. Kwok Hok Lun	3/3

There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditors.

C. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 March 2010.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

D. INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard the interests of the Company's shareholders and the Group's assets and, with the support of the Audit Committee, for reviewing the effectiveness of such system on an annual basis.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 March 2010. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

E. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 March 2010 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services and non-audit services for the year ended 31 March 2010 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** HK$'000
Audit services:	
– Audit for the year ended 31 March 2010	720
Non-audit services:	
– Interim review for the six months ended 30 September 2009	200
– Professional services on the Company's acquisition of Longrun Tea Wealth Creation Company Limited （龍潤茶業創富有限公司）	300
TOTAL:	1,220

F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group also recognizes the importance of transparent and timely disclosure of corporate information, which enables shareholders and investors to make the best investment decision. The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies.

The Company maintains a website at "www.longruntea.com" as a communication platform with shareholders and investors, where information and updates on the Group's financial information and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries. Inquiries are dealt with in an informative and timely manner.

Shareholders' meetings provide an opportunity for communication between the Board and the shareholders. Board members and appropriate senior staff of the Group are available at the meeting to answer any questions raised by shareholders.

Code provision E.1.2 of the CG Code stipulates that the chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval. At the Company's extraordinary general meetings held on (i) 14 July 2009 for approving the major and connected transaction, the possible continuing connected transaction, the subscription and issue of subscription shares and convertible bonds and the grant of share options (details of such transactions were set out in the Company's circular dated 26 June 2009), and (ii) 19 February 2010 for approving the connected transaction relating to amendments to the terms of convertible bonds (details of such transactions were set out in the Company's circular dated 1 February 2010) respectively, the independent board committee members were not present as they had other business engagements on these two dates. To cope with this deviation of code provision, the chairmen of the meetings had read the recommendation of independent board committee on these transactions for shareholders' consideration, and the Company Secretary was arranged to answer the questions from the independent shareholders at the meetings. No question was raised by any shareholders in these two general meetings.

G. SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, various rights of shareholders, including the right to propose resolutions, are contained in the Articles.

All resolutions put forward at shareholders' meetings of listed issuers shall be voted by poll pursuant to the Listing Rules. The poll voting results shall be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.longruntea.com) after each shareholders' meeting.

Report of the Directors

The directors of the Company present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2010.

CHANGE IN COMPANY NAME

Pursuant to a special resolution passed on 21 July 2009, and approved by the Registrar of Companies of Hong Kong, the Company's name was changed from "Long Far Pharmaceutical Holdings Limited 龍發製藥集團有限公司" to "Longrun Tea Group Company Limited 龍潤茶集團有限公司".

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. Save as the acquisition of the business of distribution of tea and other food products, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 92.

The directors do not recommend the payment of any dividend in respect of the year (2009: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

RESULTS

	Year ended 31 March				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**160,121**	38,781	41,371	46,563	57,533
LOSS BEFORE TAX	**(18,886)**	(5,507)	(19,226)	(14,129)	(9,886)
Income tax expense	**(11,728)**	–	–	–	5
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(30,614)**	(5,507)	(19,226)	(14,129)	(9,881)

ASSETS AND LIABILITIES

	As at 31 March				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**362,105**	86,640	103,382	105,242	122,780
TOTAL LIABILITIES	**(58,463)**	(37,061)	(49,790)	(35,256)	(40,270)
	303,642	49,579	53,592	69,986	82,510

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 28, 29 and 27 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2010, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$187,281,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$153,409.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 59% of the total sales for the year and sales to the largest customer included therein amounted to approximately 14%. Purchases from the Group's five largest suppliers accounted for approximately 71% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 31%.

Dr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 57.6% in the Company's share capital, had beneficial interests in the five largest suppliers which accounted for approximately 71% of the total purchases of the Group.

Mr. Jiao Shaoliang, a director of the Company, had beneficial interests in the five largest suppliers which accounted for approximately 71% of the total purchases of the Group.

Save as disclosed above, 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 issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Dr. Chiu Ka Leung, *Chairman*
Ms. Yeh Shu Ping, *Vice-Chairman and Chief Executive Officer*
Mr. Jiao Shaoliang
Dr. Lu Pingguo

Independent non-executive directors:

Mr. Lam Siu Hung
Mr. Guo Guoqing
Mr. Kwok Hok Lun

In accordance with article 87 of the Company's articles of association, Mr. Jiao Shaoliang, Mr. Guo Guoqing and Mr. Kwok Hok Lun will retire as directors of the Company by rotation at the forthcoming annual general meeting of the Company. The above retiring directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of 2 years commencing on 1 January 2009, except Dr. Lu Pingguo whose service contract commences on 1 February 2009, and is subject to termination by either party giving not less than three months' prior notice in writing. The executive directors are also subject to retirement by rotation in accordance with the articles of association of the Company.

The independent non-executive directors of the Company have been appointed for a fixed term of one year and are subject to retirement by rotation in accordance with the articles of association of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the financial statements headed "Related party transactions", no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

At 31 March 2010, the interests of the directors of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(A) Long position in ordinary shares of the Company

Name of director	Nature of interests	Number of ordinary shares held	Percentage+ of the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	827,244,500	57.60%
Ms. Yeh Shu Ping	Beneficial owner	43,995,500	3.06%
Mr. Jiao Shaoliang	Beneficial owner	770,000	0.05%
Dr. Lu Pingguo	Beneficial owner	10,000,000	0.69%

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

Name of director	Nature of interests	Number of underlying ordinary shares in respect of options granted	Percentage+ of underlying shares over the Company's issued share capital
Mr. Jiao Shaoliang	Beneficial owner	330,000	0.02%
Ms. Yeh Shu Ping	Beneficial owner	4,000,000	0.27%
Dr. Lu Pingguo	Beneficial owner	4,000,000	0.27%

Note: Details of the above share options granted by the Company are set out in the section headed "Share options" below.

\+ The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 31 March 2010.

In addition to the above, Dr. Chiu Ka Leung holds one ordinary share in each of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited, International Health Association (HK) Limited, Long Far Health Products Limited and Hong Kong Health Journal Limited (in all cases on trust for Long Far Pharmaceutical (BVI) Limited and all of which are indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the then minimum company membership requirement.

Save as disclosed above and in the section headed "Share options" below, as at 31 March 2010, none of the directors or chief executive of the Company had registered an interest or short position in the shares or underlying shares or debentures of the Company or any of 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 he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share options" below, at no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 March 2010, the following interest of 5% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in ordinary shares of the Company

Name	Nature of interest	Number of ordinary shares of the Company interested	*Note*	Percentage+ of the Company's issued share capital
Ms. Guo Jinxiu	Interest held by spouse	827,244,500	*1*	57.60%
Rocket Capital Holdings Limited	Beneficial owner	128,000,000	*2*	8.91%
Mr. Kenneth Huang	Interest held by controlled corporation	128,000,000	*2*	8.91%

Notes:

1. Ms. Guo Jinxiu was deemed to be interested in these shares through the interest of her spouse, Dr. Chiu Ka Leung , an executive director of the Company. Such interest of Dr. Chiu has been disclosed in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".

2. Mr. Kenneth Huang was deemed to be interested in these shares, which were held by Rocket Capital Holdings Limited, a controlled corporation of Mr. Huang pursuant to the SFO.

\+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2010.

Save as disclosed above, as at 31 March 2010, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

SHARE OPTIONS

(A) Share option scheme

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. Eligible participants of the share option scheme include the directors, including independent non-executive directors, of the Company, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the holders of securities of the Group. The share option scheme became effective on 5 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Details of movements of the share options granted under the share option scheme during the year under review were as follows:

Name or category of option holder	Number of share options: Outstanding at 1 April 2009	Granted during the year	Exercised during the year *(Note 1)*	Lapsed/ cancelled during the year	Outstanding at 31 March 2010	Date of grant of share options	Exercise period of share options	Exercise price per share
Mr. Jiao Shaoliang, Executive Director	1,100,000	–	(770,000)	–	330,000	9.9.2002	See note 2 below	HK$0.375
Employees working under continuous contracts – in aggregate	3,200,000	–	(2,240,000)	–	960,000	9.9.2002	See note 2 below	HK$0.375
Total	4,300,000	–	(3,010,000)	–	1,290,000			

Notes:

1. The weighted average closing price of shares immediately before the dates on which the options were exercised was HK$0.42.

2. The exercise period is 9 years from 9 September 2003 to 8 September 2012 (a "Year" shall mean the period from 9 September to 8 September of the next year) provided that subject to the option that the grantee is entitled to exercise but has not yet exercised and the shares of the Company that may be subscribed by the grantee in respect of such unexercised options in the previous relevant Year(s), no more than 10% of the total number of shares under the options granted (the "Total Number") may be subscribed in each Year; that the remaining 10% of the Total Number may be subscribed at any time during the period commencing on 9 September 2007 to 8 September 2012; that where any part of the option has not been exercised during the relevant Year(s), the part of the option which the grantee is entitled to exercise but has not yet exercised may be carried forward and that no option can be exercised after 8 September 2012.

   The vesting period of the share options is from the date of grant until the commencement of the exercise period.

3. The number and/or exercise price of the share options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

SHARE OPTIONS (Continued)

(B) Option agreements

On 17 May 2009, two directors and two other employees of the Company entered into option agreements with the Company, pursuant to which the Company agreed to grant to each of them an option to subscribe for shares of the Company subject to fulfillment of the conditions under the option agreements. The options were subsequently granted on 23 July 2009.

Details of movements of the options granted pursuant to the above option agreements during the year under review were as follows:

	Number of options							
Name or category of option holder	Outstanding at 1 April 2009	Granted during the year *(Note 1)*	Exercised during the year *(Note 2)*	Lapsed/ cancelled during the year	Outstanding at 31 March 2010	Date of grant of options	Exercise period of options *(Note 3)*	Exercise price per share
Ms. Yeh Shu Ping, Executive Director	–	7,500,000	(6,000,000)	–	1,500,000	23.7.2009	23.7.2009 to 23.7.2014	HK$0.4
	–	2,500,000	–	–	2,500,000	23.7.2009	23.1.2010 to 23.7.2014	HK$0.4
	–	10,000,000	(6,000,000)	–	4,000,000			
Dr. Lu Pingguo, Executive Director	–	10,500,000	(10,000,000)	–	500,000	23.7.2009	23.7.2009 to 23.7.2014	HK$0.4
	–	3,500,000	–	–	3,500,000	23.7.2009	23.1.2010 to 23.7.2014	HK$0.4
	–	14,000,000	(10,000,000)	–	4,000,000			
Employees working under continuous	–	19,500,000	(17,000,000)	–	2,500,000	23.7.2009	23.7.2009 to 23.7.2014	HK$0.4
contracts – in aggregate	–	6,500,000	–	–	6,500,000	23.7.2009	23.1.2010 to 23.7.2014	HK$0.4
	–	26,000,000	(17,000,000)	–	9,000,000			
Total	–	50,000,000	(33,000,000)	–	17,000,000			

Notes:

1. The closing price of the Company's shares immediately before the date of grant was HK$1.37. Details of the fair value of these options were set out in note 29 under the "Notes to financial statements" in this annual report.

2. The weighted average closing price of shares immediately before the dates on which the options were exercised was HK$1.04.

3. The vesting period of the options is from the date of grant until the commencement of the exercise period.

4. The number and/or exercise price of the options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

(A) Connected Transaction – Acquisition of Longrun Tea Wealth Creation Company Limited（龍潤茶業創富有限公司）

On 17 May 2009, the Company as the purchaser entered into a sale and purchase agreement ("Sale and Purchase Agreement") (as supplemented by a supplemental agreement dated 16 June 2009) with Longrun Tea Asset Management Company Limited as the vendor (the "Vendor") and Dr. Chiu Ka Leung ("Dr. Chiu") as the Vendor's guarantor, for the Company's acquisition of all of the issued share capital of Longrun Tea Wealth Creation Company Limited（龍潤茶業創富有限公司）("Target") and a shareholder's loan of HK$10 million at an aggregate consideration of HK$160,000,000 (such transaction be hereinafter referred to as the "Acquisition").

Dr. Chiu is the controlling shareholder and an executive director of the Company. Dr. Chiu (also a director of the Vendor) and Mr. Jiao Shaoliang were indirectly interested in 90% and 10% of the issued share capital of the Vendor that the Vendor is an associate of Dr. Chiu and thus a connected person of the Company within the meanings of the Listing Rules.

Upon completion of the Acquisition on 23 July 2009, the Target together with its subsidiaries ("Target Group"), comprising Longrun Tea Trading Company Limited and 雲南龍潤商貿有限公司 (Yunnan Longrun Business and Trade Company Limited) ("PRC Longrun"), became wholly-owned subsidiaries of the Group. Accordingly, the Company is capable of entering into the rapidly growing and lucrative tea market in the PRC with the existing products, network and expertise of the Target Group. This enables the Group to broaden its revenue base and enhance its profitability and at the same time, diversify the risk profile of the Group from the reliance on the pharmaceutical industry. It is also the intention of the Company that PRC Longrun will also explore other business opportunities in the food and beverages sector in the PRC.

Pursuant to the Sale and Purchase Agreement, the Vendor had irrevocably guaranteed to the Company that net profit of the Target Group after deducting all charges but before extraordinary items ("PAT") for the financial years ended/ending 31 December 2009 and 31 December 2010 would not be less than HK$20,000,000 ("2009 Guaranteed PAT") and HK$60,000,000, respectively.

Upon reviewing the information available to the Board, it is confirmed that the 2009 Guaranteed PAT was met and that the Company's independent non-executive directors are of the opinion that the Vendor has fulfilled its obligations under the said profit guarantee for the year ended 31 December 2009.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION (Continued)

(B) Continuing connected transaction – Purchase Agreement

On 12 May 2009, PRC Longrun (an indirect wholly owned subsidiary of the Company since 23 July 2009), entered into an exclusive purchase agreement (the "Purchase Agreement") with 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited) ("Longrun Tea Group"), being a connected person of the Company within the meanings of the Listing Rules since Dr. Chiu and Mr. Jiao Shaoliang were directly interested in 90% and 10% of the issued share capital of Longrun Tea Group, for a term of 10 years. Pursuant to the Purchase Agreement, PRC Longrun is granted an exclusive right to purchase the tea products and other food products manufactured by Longrun Tea Group (the "Tea Products") and to use the trademarks (including both registered and unregistered trademarks) and other intellectual properties owned by Longrun Tea Group and its subsidiaries (such transaction be hereinafter referred to as the "Transaction"). As such, all the Tea Products of Longrun Tea Group are sold to PRC Longrun. PRC Longrun, through developing its own distribution network of self-operated stores and franchised stores, is distributing the Tea Products to the market. With the Purchase Agreement, a long-term contract in place, PRC Longrun is able to secure supply of high quality pu'erh tea products at favourable purchase terms.

The purchase price of the Tea Products payable by PRC Longrun to Longrun Tea Group is the lower of (i) the production costs of the Tea Products or the book value of the inventory of Longrun Tea Group plus a premium which does not exceed 10% of such production costs or book value; or (ii) the selling price of tea products of similar quality as the Tea Products which can be obtained by PRC Longrun from other independent manufacturers. The premium of 10% was determined on normal commercial terms with reference to historical costs incurred by Longrun Tea Group to carry out its business.

The maximum amount of purchase of Tea Products payable by PRC Longrun to Longrun Tea Group arising from the Transaction approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 14 July 2009 for each of the three financial years ended/ending 31 March 2010, 31 March 2011 and 31 March 2012 were HK$101,000,000, HK$183,000,000 and HK$229,000,000, respectively. For the year ended 31 March 2010, the amount of fees paid to Longrun Tea Group under the Transaction amounted to HK$58,990,000, which was within the above maximum amount of HK$101,000,000.

The independent non-executive directors of the Company have reviewed the Transaction for the year ended 31 March 2010 and confirmed that the Transaction had been:

(a) entered into by the Group in its ordinary and usual course of business;

(b) entered into by the Group on normal commercial terms and on terms not less favourable to the Group than those available from independent third parties; and

(c) entered into on terms that were fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, have also reviewed, on a sample basis, the Transaction for the year ended 31 March 2010 and provided a letter to the Board (with a copy to the Listing Division of the Stock Exchange) confirming that:

(i) the Transaction had received the approval of the Board;

(ii) the Transaction had been entered into in accordance with the relevant agreement governing the Transaction; and

(iii) the aggregate amount of purchase under the Transaction for the year ended 31 March 2010 had not exceeded the annual cap as set out in the Company's circular dated 26 June 2009.

Report of the Directors

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following director was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, details of which are set out below:

Dr. Chiu Ka Leung has a controlling interest in 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) ("YPYP") which is principally engaged in the development, manufacture and distribution of Chinese pharmaceutical products in Mainland China.

One of the products of YPYP named Health & Beauty InnerPure Capsules (排毒養顏膠囊) was developed by YPYP which obtained approvals from the relevant authorities in the PRC for its manufacture in 1995. Health & Beauty InnerPure Capsules (排毒養顏膠囊) is targeted to improve conditions such as constipation, hypertension, insomnia, abdominal swelling, overweight, skin pigmentation as well as to tonify the functions of the spleen and kidney.

Although containing a different medicinal formula to that of the Group's Beauty and Healthy (排毒美顏寶), the symptoms which are targeted by both Beauty and Healthy (排毒美顏寶) and Health & Beauty InnerPure Capsules (排毒養顏膠囊), to improve conditions such as constipation, abdominal swelling, overweight, skin pigmentation, as well as to tonify the functions of the spleen and kidney are similar. There is a possibility that Health & Beauty InnerPure Capsules (排毒養顏膠囊) can be used as a substitute for Beauty and Healthy (排毒美顏寶) for such conditions.

As at 31 March 2010, since YPYP had only distributed Health & Beauty InnerPure Capsules (排毒養顏膠囊) in Mainland China since its launching in 1995 while the Group distributed Beauty and Healthy (排毒美顏寶) under the Group's brand name of 「龍發製藥」("Long Far") in Hong Kong, Southeast Asia and other Asian regions outside Mainland China, the directors consider that the operations of YPYP will not affect the Group's business.

Save as disclosed herein, the directors confirm that none of the existing products of YPYP is or may be in direct or indirect competition with the Group's products.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

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

ON BEHALF OF THE BOARD

Chiu Ka Leung
Chairman

Hong Kong
9 July 2010

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Longrun Tea Group Company Limited
(Formerly Long Far Pharmaceutical Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Longrun Tea Group Company Limited set out on pages 29 to 92, which comprise the consolidated and company statements of financial position as at 31 March 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
9 July 2010

Consolidated Income Statement

Year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	4	**160,121**	38,781
Cost of sales		**(84,632)**	(16,248)
Gross profit		**75,489**	22,533
Other income and gains	4	**3,567**	1,310
Selling and distribution costs		**(12,696)**	(6,724)
Administrative expenses		**(25,331)**	(21,484)
Share option expenses	29(b)	**(47,011)**	–
Amortisation of intangible assets	15	**(3,256)**	–
Fair value loss on derivative financial instruments, net		**(4,160)**	–
Other expenses		**(695)**	(399)
Imputed interest on convertible bonds	27	**(4,282)**	–
Other finance costs	6	**(511)**	(743)
LOSS BEFORE TAX	5	**(18,886)**	(5,507)
Income tax expense	9	**(11,728)**	–
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	10	**(30,614)**	(5,507)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**(HK3.07 cents)**	(HK0.92 cent)
Diluted		**(HK3.07 cents)**	(HK0.92 cent)

LongRun

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Consolidated Statement of Comprehensive Income

Year ended 31 March 2010

	2010 HK$'000	2009 HK$'000
LOSS FOR THE YEAR	**(30,614)**	(5,507)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**(105)**	1,494
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(105)**	1,494
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(30,719)**	(4,013)
Attributable to:		
Owners of the Company	**(30,719)**	(4,013)

Consolidated Statement of Financial Position

31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**34,308**	34,171
Prepaid land lease payments	14	**21,502**	22,054
Deposits for acquisition of items of property, plant and equipment		**709**	–
Intangible assets	15	**44,602**	–
Goodwill	16	**116,920**	–
Deferred tax assets	26	**240**	240
Total non-current assets		**218,281**	56,465
CURRENT ASSETS			
Inventories	18	**11,628**	11,477
Trade receivables	19	**66,446**	9,831
Prepayments, deposits and other receivables	20	**20,712**	2,612
Financial assets at fair value through profit or loss	21	**352**	232
Tax recoverable		**49**	49
Pledged deposits	22	**375**	375
Cash and cash equivalents	22	**44,262**	5,599
Total current assets		**143,824**	30,175
CURRENT LIABILITIES			
Trade payables	23	**4,529**	2,548
Other payables and accruals	24	**14,655**	7,709
Interest-bearing bank borrowings	25	**8,284**	8,227
Due to related companies	36(b)	**4,115**	113
Due to directors	36(b)	**955**	6,070
Tax payable		**4,664**	–
Total current liabilities		**37,202**	24,667
NET CURRENT ASSETS		**106,622**	5,508
TOTAL ASSETS LESS CURRENT LIABILITIES		**324,903**	61,973
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**9,940**	12,224
Deferred tax liabilities	26	**11,321**	170
Total non-current liabilities		**21,261**	12,394
Net assets		**303,642**	49,579
EQUITY			
Issued capital	28	**71,801**	30,000
Reserves	30(a)	**231,841**	19,579
Total equity		**303,642**	49,579

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2010

	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 30(a))*	Equity component of convertible bonds HK$'000	Employee share-based compensation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated loss) HK$'000	Total HK$'000
At 1 April 2008		30,000	8,720	300	–	–	5,543	9,029	53,592
Total comprehensive income/(loss) for the year		–	–	–	–	–	1,494	(5,507)	(4,013)
At 31 March 2009 and 1 April 2009		**30,000**	**8,720***	**300***	**–**	**–**	**7,037***	**3,522***	**49,579**
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**(105)**	**(30,614)**	**(30,719)**
Issue of convertible bonds	*27*	**–**	**–**	**–**	**28,250**	**–**	**–**	**–**	**28,250**
Exercise of share options	*28*	**1,801**	**43,218**	**–**	**–**	**(30,690)**	**–**	**–**	**14,329**
Issue of subscription shares	*28*	**5,000**	**20,000**	**–**	**–**	**–**	**–**	**–**	**25,000**
Issue of acquisition shares	*28*	**20,000**	**80,000**	**–**	**–**	**–**	**–**	**–**	**100,000**
Conversion of convertible bonds	*27,28*	**15,000**	**83,442**	**–**	**(28,250)**	**–**	**–**	**–**	**70,192**
Equity-settled share option arrangement	*29*	**–**	**–**	**–**	**–**	**47,011**	**–**	**–**	**47,011**
At 31 March 2010		**71,801**	**235,380***	**300***	**–***	**16,321***	**6,932***	**(27,092)***	**303,642**

* *These reserve accounts comprise the consolidated reserves of HK$231,841,000 (2009: HK$19,579,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(18,886)**	(5,507)
Adjustments for:			
Dividend income from listed investments	4	**(2)**	(1)
Imputed interest on convertible bonds		**4,282**	–
Other finance costs	6	**511**	743
Interest income	4	**(57)**	(45)
Fair value (gains)/losses for financial assets at fair value through profit or loss	5	**(219)**	216
Gain on disposal of financial assets at fair value through profit or loss	4	**(507)**	–
Fair value loss on derivative financial instruments, net	5	**4,160**	–
Depreciation	5	**3,220**	3,366
Recognition of prepaid land lease payments	5	**577**	577
Loss/(gain) on disposal of items of property, plant and equipment, net	5	**(31)**	31
Amortisation of intangible assets	5	**3,256**	–
Equity-settled share option expense		**47,011**	–
Impairment of trade receivables	5	**542**	136
Write-down/(reversal of write-down) of inventories to net realisable value	5	**(57)**	80
		43,800	(404)
Decrease/(increase) in inventories		**6,522**	(2,018)
Decrease/(increase) in trade receivables		**(55,893)**	1,790
Increase in prepayments, deposits and other receivables		**(14,225)**	(453)
Decrease in amounts due to related companies		**(40,346)**	–
Decrease in amounts due to directors		**(10,004)**	(203)
Increase in trade payables		**1,981**	308
Increase/(decrease) in other payables and accruals		**(5,924)**	290
Cash used in operations		**(74,089)**	(690)
PRC profits tax paid		**(7,878)**	(39)
Net cash flows used in operating activities		**(81,967)**	(729)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**57**	45
Purchases of items of property, plant and equipment		**(3,255)**	(260)
Acquisition of subsidiaries	31	**63,539**	–
Increase in deposits for acquisition of property, plant and equipment		**(709)**	–
Increase in pledged time deposits		**–**	(6)
Proceeds from disposal of items of property, plant and equipment		**31**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**606**	–
Dividend received from listed investments		**2**	1
Net cash flows from/(used in) investing activities		**60,271**	(220)

Consolidated Statement of Cash Flows (Continued)

Year ended 31 March 2010

	Notes	**2010 HK$'000**	2009 HK$'000
Net cash flows from/(used in) investing activities		**60,271**	(220)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of finance lease rental payments		**–**	(71)
Issue of shares from exercise of share options		**14,329**	–
Issue of subscription shares		**25,000**	–
Repayment of bank loans		**(2,227)**	(13,057)
Proceeds from issue of convertible bonds		**30,000**	–
Increase in an amount due to a related company		**–**	4
Decrease in an amount due to a director		**(6,000)**	–
Interest paid		**(511)**	(743)
Net cash flows from/(used in) financing activities		**60,591**	(13,867)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**38,895**	(14,816)
Cash and cash equivalents at beginning of year		**5,599**	19,941
Effect of foreign exchange rate changes, net		**(232)**	474
CASH AND CASH EQUIVALENTS AT END OF YEAR		**44,262**	5,599
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**44,262**	5,599
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows		**44,262**	5,599

Statement of Financial Position

31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**55**	–
Investments in subsidiaries	*17*	**159,507**	6,712
Total non-current assets		**159,562**	6,712
CURRENT ASSETS			
Due from subsidiaries	*17*	**113,366**	50,972
Prepayments, deposits and other receivables	*20*	**3,063**	109
Cash and cash equivalents	*22*	**132**	106
Total current assets		**116,561**	51,187
CURRENT LIABILITIES			
Other payables and accruals	*24*	**720**	20
NET CURRENT ASSETS		**115,841**	51,167
Net assets		**275,403**	57,879
EQUITY			
Issued capital	*28*	**71,801**	30,000
Reserves	*30(b)*	**203,602**	27,879
Total equity		**275,403**	57,879

Yeh Shu Ping
Director

Jiao Shaoliang
Director

LongRun 龍潤

Notes to Financial Statements

31 March 2010

1. CORPORATE INFORMATION

Longrun Tea Group Company Limited is a limited liability company incorporated in the Cayman Islands. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the trading, manufacture and distribution of pharmaceutical products and trading and distribution of tea and other food products.

Pursuant to a special resolution passed on 21 July 2009 and approved by the Registrar of Companies of Hong Kong, the name of the Company was changed from Long Far Pharmaceutical Holdings Limited 龍發製藥集團有限公司 to Longrun Tea Group Company Limited 龍潤茶集團有限公司.

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, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2010. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC) – Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) – Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC) – Int 13	*Customer Loyalty Programmes*
HK(IFRIC) – Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC) – Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC) – Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* *Included in Improvements to HKFRSs 2009 (as issued in May 2009).*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 38 to the financial statements while the revised liquidity risk disclosures are presented in note 39 to the financial statements.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 3 to the financial statements.

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC) – Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC) – Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC) – Int 13 *Customer Loyalty Programmes*

HK(IFRIC) – Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC) – Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC) – Int 15 replaces HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position on results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(l) HK(IFRIC) – Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC) – Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operation of the Group.

(m) HK(IFRIC) – Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC) – Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to "total interest income" as a component of finance costs.

- HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

- HKAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(n) (Continued)

- HKAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

- Financial Instruments: Recognition and Measurement: (i) sets out a number of changes in circumstances relating to derivatives that are not considered to result in reclassification into or out of the fair value through profit or loss category; (ii) removes the reference to the designation of hedging instrument at the segment level; and (iii) requires that the revised effective interest rate (rather than the original effective interest rate) calculated on cessation of fair value hedge accounting should be used for the remeasurement of the hedged item when paragraph AG8 of HKAS 39 is applicable.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC) – Int 14 Amendments	Amendments to HK(IFRIC) – Int 14 *Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC) – Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC) – Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	*Amendments to* HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC) – Int 9 and HK(IFRIC) – Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] *Effective for annual periods beginning on or after 1 July 2009*
[2] *Effective for annual periods beginning on or after 1 January 2010*
[3] *Effective for annual periods beginning on or after 1 February 2010*
[4] *Effective for annual periods beginning on or after 1 July 2010*
[5] *Effective for annual periods beginning on or after 1 January 2011*
[6] *Effective for annual periods beginning on or after 1 January 2013*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed 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 March 2010. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (Continued)

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

Where goodwill forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), 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 to sell, 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 income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any 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 income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment 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 income statement 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 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 depreciation.

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	5%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and office equipment	20%
Computer equipment	20%
Plant and machinery	30%
Motor vehicles	30%

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 and 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 income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 as 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.

Right to the use of trademarks and exclusive purchase right

Purchased right to the use of trademarks and exclusive purchase right are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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 cash and bank balances, trade and other receivables and quoted financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

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

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 derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, amounts due to related companies, amounts due to directors and interest-bearing loans and borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Loans and borrowings

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the terms of convertible bonds exhibit characteristics of an embedded derivative which is not closely related to the host contract, they are separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out 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 further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

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

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

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 for the current and prior periods 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:

- where 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, where 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where 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 subsidies

Government subsidies are recognised at their fair value where there is reasonable assurance that the subsidy will be received and all outstanding conditions will be complied with.

Revenue recognition

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

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

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

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 payment transactions, 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 29 to the financial statements.

The cost of equity-settled transactions is recognised, 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 income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not 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 payment transaction, 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. All cancellations of equity-settled transaction awards are treated equally.

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

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable 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 employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC" or "Mainland China") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation 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. Foreigns currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the end of the reporting period and their income statements 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 consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas 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.

2.5 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 the disclosure of contingent liabilities, at the end of the reporting period. However, 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.

Estimation uncertainty

The key assumption 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, is discussed below.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and 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. The carrying amount of deferred tax assets at 31 March 2010 was HK$240,000 (2009: HK$240,000). Further details are given in note 26 to the financial statements.

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 unit 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 unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 March 2010 was HK$116,920,000 (2009: Nil). More details are given in note 16 to the financial statements.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. OPERATING SEGMENT INFORMATION

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

(a) the "Manufacturing and distribution of pharmaceutical products" segment engages in the manufacturing, sale and distribution of pharmaceutical products; and

(b) the "Distribution of tea and other food products" segment engages in the sale and distribution of tea and other food products.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Business segment

Year ended 31 March 2010

	Manufacturing and distribution of pharmaceutical products HK$'000	Distribution of tea and other food products HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	37,314	122,807	160,121
Other revenue	713	1,685	2,398
	38,027	124,492	162,519
Segment results	667	39,932	40,599
Reconciliation:			
Interest income			57
Dividend income and other unallocated gains			1,112
Share option expenses			(47,011)
Corporate and other unallocated expenses			(8,850)
Imputed interest on convertible bonds			(4,282)
Other finance costs			(511)
Loss before tax			(18,886)
Segment assets	72,718	240,990	313,708
Reconciliation:			
Deferred tax assets			240
Tax recoverable			49
Pledged deposits			375
Cash and cash equivalents			44,262
Corporate and other unallocated assets			3,471
Total assets			362,105
Segment liabilities	11,174	12,360	23,534
Reconciliation:			
Deferred tax liabilities			11,321
Tax payable			4,664
Interest-bearing bank borrowings			18,224
Corporate and other unallocated liabilities			720
Total liabilities			58,463
Other segment information:			
Depreciation and amortisation	3,647	3,406	7,053
Capital expenditure*	198	50,915	51,113

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets.*

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Business segment (Continued)

Year ended 31 March 2009

	Manufacturing and distribution of pharmaceutical products HK$'000	Distribution of tea and other food products HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	38,781	–	38,781
Other revenue	1,264	–	1,264
	40,045	–	40,045
Segment results	886	–	886
Reconciliation:			
Interest income			45
Dividend income and other unallocated gains			1
Corporate and other unallocated expenses			(5,696)
Finance costs			(743)
Loss before tax			(5,507)
Segment assets	80,036	–	80,036
Reconciliation:			
Deferred tax assets			240
Tax recoverable			49
Pledged deposits			375
Cash and cash equivalents			5,599
Corporate and other unallocated assets			341
Total assets			86,640
Segment liabilities	16,420	–	16,420
Reconciliation:			
Deferred tax liabilities			170
Interest-bearing bank borrowings			20,451
Corporate and other unallocated liabilities			20
Total liabilities			37,061
Other segment information:			
Depreciation and amortisation	3,943	–	3,943
Capital expenditure*	260	–	260

* *Capital expenditure consists of additions to property, plant and equipment.*

3. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information

(i) Revenue from external customers:

	2010 HK$'000	2009 HK$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	**145,260**	20,082
Hong Kong	**13,897**	16,827
Elsewhere in Asia	**964**	1,872
	160,121	38,781

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

(ii) Non-current assets:

	2010 HK$'000	2009 HK$'000
The PRC, excluding Hong Kong	**189,386**	26,649
Hong Kong	**28,895**	29,816
	218,281	56,465

The non-current asset information above is based on the location of assets.

Information about major customers

Revenue of approximately HK$22,154,000, HK$18,493,000, HK$18,077,000, HK$17,973,000, HK$17,676,000 and HK$17,588,000 for the year ended 31 March 2010 was derived from sales to six major customers, including sales to a group of entities which are known to be under common control with these customers.

Revenue of approximately HK$9,170,000, HK$8,454,000 and HK$5,734,000 for the year ended 31 March 2009 was derived from sales to three major customers, including sales to group of entities which are known to be under common control with these customers.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

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

	2010 **HK$'000**	2009 HK$'000
Revenue		
Sale of goods	**160,121**	38,781
Other income		
Dividend income from listed investments	**2**	1
Interest income	**57**	45
Subsidy income	**2,169**	339
Rental income	**16**	–
Others	**566**	925
	2,810	1,310
Gains		
Gain on disposal of items of property, plant and equipment, net	**31**	–
Fair value gain for financial assets at fair value through profit or loss	**219**	–
Gain on disposal of financial assets at fair value through profit or loss	**507**	–
	757	–
	3,567	1,310

5. LOSS BEFORE TAX

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

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold		**84,627**	15,974
Depreciation	*13*	**3,220**	3,366
Recognition of prepaid land lease payments	*14*	**577**	577
Amortisation of intangible assets	*15*	**3,256**	–
Minimum lease payment under operating leases:			
Offices and buildings		**1,576**	179
Auditors' remuneration		**720**	630
Employee benefits expense (excluding directors' remuneration in note 7):			
Wages and salaries		**12,137**	10,441
Equity-settled share option expense		**24,446**	–
Pension scheme contributions		**432**	408
		37,015	10,849
Impairment of trade receivables*	*19*	**542**	136
Fair value loss on derivative financial instruments, net		**4,160**	–
(Reversal of write-down)/write-down of inventories to net realisable value**		**(57)**	80
Foreign exchange (gains)/losses, net		**(334)**	5
(Gain)/loss on disposal of items of property, plant and equipment, net		**(31)**	31
Fair value (gains)/losses for financial assets at fair value through profit or loss		**(219)**	216
Gain on disposal of financial assets at fair value through profit or loss		**(507)**	–
Subsidy income***		**(2,169)**	(339)

* *Included in the "Other expenses" on the face of the consolidated income statement.*

** *Included in the "Cost of sales" on the face of the consolidated income statement.*

*** *Various government subsidies have been received for enterprises in Yunnan province, Mainland China. There are no unfulfilled conditions or contingencies related to those subsidies.*

6. OTHER FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on bank loans wholly repayable:		
Within five years	**175**	424
Over five years	**336**	317
Interest on finance leases	**–**	2
	511	743

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2010 HK$'000	2009 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**216**	216
	216	216
Other emoluments:		
Salaries, allowances and benefits in kind	**3,716**	3,862
Equity-settled share option expense	**22,565**	–
Pension scheme contributions	**48**	48
	26,329	3,910
	26,545	4,126

During the year, certain directors were granted share options, in respect of their services to the Group, under the option arrangements of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

7. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2010 HK$'000	2009 HK$'000
Mr. Guo Guoqing	**72**	72
Mr. Lam Siu Hung	**72**	72
Mr. Kwok Hok Lun	**72**	72
	216	216

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

(b) Executive directors

	Fees HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Equity-settled share option expense** HK$'000	**Pension scheme contributions** HK$'000	**Total remuneration** HK$'000
2010					
Executive directors:					
Dr. Chiu Ka Leung	**–**	**1,548**	**–**	**12**	**1,560**
Ms. Yeh Shu Ping	**–**	**1,308**	**9,402**	**12**	**10,722**
Mr. Jiao Shaoliang	**–**	**612**	**–**	**12**	**624**
Dr. Lu Pingguo	**–**	**248**	**13,163**	**12**	**13,423**
	–	**3,716**	**22,565**	**48**	**26,329**
2009					
Executive directors:					
Dr. Chiu Ka Leung	–	1,623	–	12	1,635
Ms. Yeh Shu Ping	–	1,379	–	12	1,391
Mr. Jiao Shaoliang	–	612	–	12	624
Mr. Lan Daoying	–	210	–	10	220
Dr. Lu Pingguo	–	38	–	2	40
	–	3,862	–	48	3,910

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2009: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the two (2009: three) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,234**	2,988
Equity-settled share option expense	**24,446**	–
Pension scheme contributions	**24**	34
	26,704	3,022

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$22,500,001 to HK$23,000,000	**1**	–
	2	3

During the year, share options were granted to the non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil). The corporate income tax provision of the Group in respect of operations in Mainland China has been calculated at 25% on the estimated assessable profits for the year based on the rate of tax prevailing in the jurisdictions in which the Group operates (2009: Nil).

	2010 HK$'000	2009 HK$'000
Group:		
Current – Mainland China	**12,542**	–
Deferred tax credit (note 26)	**(814)**	–
Total tax charge for the year	**11,728**	–

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

Group – 2010

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(69,683)		50,797		(18,886)	
Tax at the statutory or applicable tax rate	(11,495)	16.5	12,699	25.0	1,204	(6.4)
Income not subject to tax	(14)	–	–	–	(14)	0.1
Expenses not deductible for tax	342	(0.5)	85	0.2	427	(2.3)
Tax losses not recognised	11,011	(15.8)	38	0.1	11,049	(58.5)
Tax loss utilised from previous periods	–	–	(1,094)	(2.2)	(1,094)	5.8
Deductible temporary difference not recognised	156	(0.2)	–	–	156	(0.8)
Tax at the Group's effective rate	–	–	11,728	23.1	11,728	(62.1)

9. INCOME TAX (Continued)

Group – 2009

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(6,937)		1,430		(5,507)	
Tax at the statutory or applicable tax rate	(1,145)	16.5	357	25.0	(788)	14.3
Income not subject to tax	(89)	1.3	–	–	(89)	1.6
Expenses not deductible for tax	358	(5.2)	91	6.3	449	(8.1)
Tax losses not recognised	743	(10.7)	4	0.3	747	(13.6)
Tax loss utilised from previous periods	–	–	(452)	(31.6)	(452)	8.2
Deductible temporary difference not recognised	133	(1.9)	–	–	133	(2.4)
Tax at the Group's effective rate	–	–	–	–	–	–

10. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 March 2010 includes a loss of HK$67,258,000 (2009: profit of HK$25,000) which has been dealt with in the financial statements of the Company *(note 30(b))*.

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 995,688,521 (2009: 600,000,000) in issue during the year.

No adjustment has been made to the basic loss per share amount presented for the years ended 31 March 2010 and 2009 in respect of a dilution as the impact of the share options and convertible bonds outstanding, where applicable, during those years had an anti-dilutive effect on the basic loss per share amounts presented.

12. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2010 (2009: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
31 March 2010							
At 1 April 2009:							
Cost	42,132	2,728	1,974	1,037	11,747	2,390	62,008
Accumulated depreciation	(9,538)	(1,864)	(1,564)	(940)	(11,541)	(2,390)	(27,837)
Net carrying amount	32,594	864	410	97	206	–	34,171
At 1 April 2009, net of accumulated depreciation	32,594	864	410	97	206	–	34,171
Additions	–	2,237	129	406	67	416	3,255
Acquisition of subsidiaries *(note 31)*	–	–	7	–	–	–	7
Depreciation provided during the year	(2,121)	(664)	(258)	(61)	(103)	(13)	(3,220)
Exchange realignment	93	–	36	–	(34)	–	95
At 31 March 2010, net of accumulated depreciation	30,566	2,437	324	442	136	403	34,308
At 31 March 2010:							
Cost	42,255	4,965	2,149	1,443	11,825	2,725	65,362
Accumulated depreciation	(11,689)	(2,528)	(1,825)	(1,001)	(11,689)	(2,322)	(31,054)
Net carrying amount	30,566	2,437	324	442	136	403	34,308

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
31 March 2009							
At 1 April 2008:							
Cost	41,152	2,747	2,131	1,429	11,196	2,369	61,024
Accumulated depreciation	(7,236)	(1,321)	(1,437)	(1,325)	(11,012)	(2,194)	(24,525)
Net carrying amount	33,916	1,426	694	104	184	175	36,499
At 1 April 2008, net of accumulated depreciation	33,916	1,426	694	104	184	175	36,499
Additions	–	–	12	35	213	–	260
Disposals	–	(17)	(13)	(1)	–	–	(31)
Depreciation provided during the year	(2,115)	(545)	(294)	(41)	(194)	(177)	(3,366)
Exchange realignment	793	–	11	–	3	2	809
At 31 March 2009, net of accumulated depreciation	32,594	864	410	97	206	–	34,171
At 31 March 2009:							
Cost	42,132	2,728	1,974	1,037	11,747	2,390	62,008
Accumulated depreciation	(9,538)	(1,864)	(1,564)	(940)	(11,541)	(2,390)	(27,837)
Net carrying amount	32,594	864	410	97	206	–	34,171

The Group's buildings with aggregate costs of HK$15,225,000 (2009: HK$15,225,000) and HK$27,030,000 (2009: HK$26,907,000) are situated in Hong Kong and Mainland China, respectively, and are held under medium term leases.

At 31 March 2010, certain of the Group's buildings with a carrying amount of approximately HK$11,189,000 (2009: HK$11,935,000) were pledged to secure banking facilities granted to the Group *(note 25)*.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
31 March 2010				
At 1 April 2009				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net carrying amount	–	–	–	–
At 1 April 2009, net of accumulated depreciation	–	–	–	–
Additions	32	12	21	65
Depreciation provided during the year	(7)	(1)	(2)	(10)
At 31 March 2010, net of accumulated depreciation	25	11	19	55
At 31 March 2010:				
Cost	32	12	21	65
Accumulated depreciation	(7)	(1)	(2)	(10)
Net carrying amount	25	11	19	55

14. PREPAID LAND LEASE PAYMENTS

	2010 **HK$'000**	2009 HK$'000
Carrying amount at beginning of year	**22,624**	22,990
Recognised during the year	**(577)**	(577)
Exchange realignment	**32**	211
Carrying amount at end of year	**22,079**	22,624
Current portion included in prepayments, deposits and other receivables	**(577)**	(570)
Non-current portion	**21,502**	22,054

At 31 March 2010, the land of the Group was held under medium term leases and was situated in Hong Kong and Mainland China as to the carrying amounts of HK$16,397,000 (2009: HK$16,840,000) and HK$5,682,000 (2009: HK$5,784,000), respectively.

At 31 March 2010, certain of the Group's land with a carrying amount of approximately HK$16,059,000 (2009: HK$16,493,000) was pledged to secure certain banking facilities granted to the Group *(note 25)*.

15. INTANGIBLE ASSETS

Group

	Right to the use of trademarks HK$'000	**Exclusive purchase right** HK$'000	**Total** HK$'000
31 March 2010			
Cost at 1 April 2009, net of accumulated amortisation	–	–	–
Acquisition of subsidiaries *(note 31)*	12,461	35,397	47,858
Amortisation provided during the year	(848)	(2,408)	(3,256)
At 31 March 2010	11,613	32,989	44,602
At 31 March 2010:			
Cost	12,461	35,397	47,858
Accumulated amortisation	(848)	(2,408)	(3,256)
Net carrying amount	11,613	32,989	44,602

16. GOODWILL

Group

	HK$'000
Cost at 1 April 2009	–
Acquisition of subsidiaries *(note 31)*	116,920
Cost and carrying amount at 31 March 2010	116,920

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the cash-generating unit of distribution of tea and other food products, which is a reportable segment, for impairment testing.

The recoverable amount of the distribution of tea and other food products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a three-year period approved by senior management. The discount rate applied to the cash flow projections is 16% and cash flows beyond the three-year period are extrapolated using a growth rate of 3%.

Key assumptions were used in the value in use calculation of the distribution of tea and other food products cash-generating unit for 31 March 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted turnover – Budgeted turnover is based on the expected growth rate of the market in which the assessed entity operates and the expected market share of the assessed entity.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**207,794**	54,999
Less: Return of capital *(note)*	**(25,000)**	(25,000)
Less: Impairment	**(23,287)**	(23,287)
	159,507	6,712

Note: The return of capital represents an interim dividend declared by a subsidiary from its profits prior to the reorganisation of the Group in 2002.

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity interest attributable to the Company 2010	2009	Principal activities
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands/ Hong Kong	US$200	**100**	100	Investment holding
Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK")	Hong Kong	Ordinary shares HK$10 and non-voting deferred shares* HK$100,000	**100**	100	Trading of pharmaceutical products
Hong Kong Health Journal Limited	Hong Kong	HK$100,000	**100**	100	Dormant
International Health Association (HK) Limited	Hong Kong	HK$100,000	**100**	100	Dormant
Winlead Investment Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Long Far Health Products Limited	Hong Kong	HK$2	**100**	100	Trading of health products
雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Company Limited)** ("Yunnan Long Far")	The PRC/Mainland China	RMB31,580,900	**100**	100	Manufacture and distribution of pharmaceutical products
Long Far Investment (Hong Kong) Limited	Hong Kong	HK$1	**100**	100	Property holding
Long Far Pharmaceutical (Macau) Limited	Macau	MOP25,000	**100**	100	Dormant
Long Far Mining Holdings (Hong Kong) Limited	Hong Kong	HK$1	**100**	100	Dormant
雲南龍發房地產開發有限公司**	The PRC/Mainland China	RMB10,000,000	**100**	100	Dormant
Long Far Real Estate Limited	Hong Kong	HK$1	**100**	100	Dormant

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity interest attributable to the Company 2010	2009	Principal activities
Longrun Tea Wealth Creation Company Limited ("Longrun Tea Wealth")#	BVI	US$1	**100**	–	Investment holding
Longrun Tea Trading Company Limited#	Hong Kong	HK$1	**100**	–	Investment holding, tea food trading, chain sales, provision of management and technical services
雲南龍潤商貿有限公司 (Yunnan Longrun Business and Trade Company Limited)**#	The PRC/ Mainland China	HK$47,000,000	**100**	–	Trading of tea products
Longrun Tea (HongKong) Chain Store Company Limited#	Hong Kong	HK$1	**100**	–	Trading of tea products

* *In accordance with the articles of association of LFHK, shareholders of non-voting deferred shares are not entitled to any dividend, any participation in the profits or assets of LFHK (unless the distribution of the net assets for the first HK$100,000 billion is made to the ordinary shareholders), and are also not entitled to vote at any general meeting.*

** *Registered as a wholly foreign-owned enterprise under the PRC law.*

Acquired/incorporated during the year.

Except for Long Far Pharmaceutical and Longrun Tea Wealth, all the above subsidiaries are indirectly held by the Company.

18. INVENTORIES

	Group 2010 HK$'000	2009 HK$'000
Trading goods	**661**	506
Finished goods	**5,410**	6,571
Work in progress	**1,921**	1,948
Raw materials	**1,701**	986
Packaging materials	**1,935**	1,466
	11,628	11,477

19. TRADE RECEIVABLES

	2010 HK$'000	2009 HK$'000
Trade receivables	**66,988**	9,831
Impairment	**(542)**	–
	66,446	9,831

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date, that are not considered to be impaired is as follows:

	2010 HK$'000	2009 HK$'000
Current (neither past due nor impaired)	**60,211**	3,783
Within 1 to 3 months overdue	**4,120**	4,171
More than 3 months overdue but less than 12 months overdue	**1,700**	1,388
Over 12 months overdue	**415**	489
	66,446	9,831

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

	Group	
	2010 HK$'000	2009 HK$'000
At beginning of year	**–**	16
Impairment losses recognised *(note 5)*	**542**	136
Amount written off as uncollectible	**–**	(152)
At end of year	**542**	–

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

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**16,248**	1,471	**3,000**	109
Deposits and other receivables	**4,464**	1,141	**63**	–
	20,712	2,612	**3,063**	109

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.

Included in the Group's prepayments, deposits and other receivables is an other receivable of HK$831,000 due from 雲南龍潤茶業發展有限公司 Yunnan Longrun Tea Development Company Limited ("YLRT"), which is unsecured, interest-free and repayable on demand, and a prepayment for purchase of tea products of HK$10,789,000 to 鳳慶龍潤茶業有限公司 Fengqing Longrun Tea Company Limited ("FLRT"). YLRT and FLRT are wholly owned subsidiaries of 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited) ("LRTG"). LRTG is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	2009
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**352**	232

The above equity investments at 31 March 2010 were classified as held for trading.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**44,637**	5,974	**132**	106
Time deposits	**–**	–	**–**	–
	44,637	5,974	**132**	106
Less: Pledged time deposits	**(375)**	(375)	**–**	–
Cash and cash equivalents	**44,262**	5,599	**132**	106

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$31,270,000 (2009: HK$2,877,000). 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 are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

23. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the payment due date, is as follows:

	2010 HK$'000	2009 HK$'000
Within 1 to 3 months overdue	**3,942**	2,166
More than 3 months overdue but less than 12 months overdue	**319**	97
Over 12 months overdue	**268**	285
	4,529	2,548

The trade payables are non-interest-bearing.

Included in the Group's trade payables are trade payables of HK$114,000, HK$171,000 and HK$1,348,000 due to YLRT, FLRT and 雲縣天龍生態茶業有限責任公司 Yunxian Tialong Eco-Tea Company Limited ("YTET"), respectively. YLRT, FLRT and YTET are wholly owned subsidiaries of LRTG.

24. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Receipts in advance	**6,100**	1,907	**–**	–
Accruals	**4,211**	2,985	**720**	–
Other payables	**4,344**	2,817	**–**	20
	14,655	7,709	**720**	20

The other payables are non-interest-bearing.

25. INTEREST-BEARING BANK BORROWINGS

Group

	2010			2009		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**2.5 – 3.28**	**2011**	**8,284**	2.5 – 3.5	2010	8,227
Non-current						
Bank loans – secured	**2.5**	**2012-2015**	**9,940**	2.5	2011 – 2015	12,224
			18,224			20,451

	2010 HK$'000	2009 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**8,284**	8,227
In the second year	**2,341**	2,284
In the third to fifth years, inclusive	**7,386**	7,203
Beyond five years	**213**	2,737
	18,224	20,451

Notes:

(a) The Group's bank loans were secured by mortgages over the Group's land and buildings with an aggregate carrying amount of approximately HK$27,248,000 (2009: HK$28,428,000) as at 31 March 2010.

(b) All borrowings are denominated in Hong Kong dollars.

(c) The carrying amounts of the Group's borrowings approximate to their fair values.

26. DEFERRED TAX

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

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 April 2008, 31 March 2009 and 1 April 2009	170	–	170
Acquisition of subsidiaries *(note 31)*	–	11,965	11,965
Deferred tax credited to the income statement during the year *(note 9)*	–	(814)	(814)
Gross deferred tax liabilities at 31 March 2010	170	11,151	11,321

Deferred tax assets

Group

	Fair value adjustment arising from acquisition of a subsidiary
Gross deferred tax assets at 1 April 2008, 31 March 2009 and 31 March 2010	240

Deferred tax assets have not been recognised in respect of the following items as it is not considered probable that taxable profits will be available against which the tax losses can be utilised:

	Group		Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Tax losses	**105,258**	42,749	**64,079**	356
Deductible temporary differences	**156**	133	**–**	–
	105,414	42,882	**64,079**	356

26. DEFERRED TAX (Continued)

Certain tax losses of HK$2,473,000 will expire between 2010 and 2013. The remaining tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Pursuant to the PRC Corporate Income Tax Law, 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 2009 and applies to earnings after 31 December 2008. 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 to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2009.

At 31 March 2010, 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 subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$3,801,000 at 31 March 2010 (2009: Nil).

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

27. CONVERTIBLE BONDS

On 23 July 2009, the Company issued convertible bonds with a nominal value of HK$30,000,000 ("Subscription CBs") for cash and convertible bonds with a nominal value of HK$60,000,000 ("Acquisition CBs") as part of the consideration for the acquisition of subsidiaries *(note 31)*. The convertible bonds are convertible at the option of the bondholders into ordinary shares on or after 23 July 2010 at a conversion price of HK$0.3 per share. Any convertible bonds not converted will be redeemed by the Company on 23 July 2012. The convertible bonds carry interest at a rate of 3% per annum, which is payable half-yearly in arrears starting from 23 January 2010.

On 19 February 2010, the Company amended the terms of the Subscription CBs and the Acquisition CBs that (i) the conversion period commenced from the date of issue of the bond instruments constituting the Subscription CBs and the Acquisition CBs and ending on the maturity date; and (ii) the Subscription CBs and the Acquisition CBs do not bear any interest.

The call/put options in respect of early redemption of the Subscription CBs exhibit characteristics of embedded derivatives which are not closely related to the host contract and are separated from the liability and equity components. On initial recognition, the derivative component of the Subscription CBs is measured at fair value and presented as part of derivative financial instruments, and is remeasured at fair value at each reporting date. The fair value of the liability component of the Subscription CBs was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option or other embedded derivative. The residual amount is assigned as the equity component and is included in shareholders' equity.

The fair value of the liability component of the Acquisition CBs was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

27. CONVERTIBLE BONDS (Continued)

The convertible bonds issued during the year have been split as to the embedded derivatives and the liability and equity components, as follows:

	2010 HK$'000
Nominal value of convertible bonds issued during the year	**90,000**
Equity component	**(28,250)**
Derivative financial instruments, net	**4,160**
Liability component at the issuance date	**65,910**
Imputed interest expense	**4,282**
Conversion during the year	**(70,192)**
Liability component at end of year	**–**

On 25 February 2010, all of the Subscription CBs and the Acquisition CBs were converted into ordinary shares in the Company *(note 28(d))*.

28. SHARE CAPITAL

	2010 HK$'000	2009 HK$'000
Authorised		
5,000,000,000 ordinary shares of HK$0.05 each	**250,000**	250,000
Issued and fully paid		
1,436,010,000 (31 March 2009: 600,000,000) ordinary shares of HK$0.05 each	**71,801**	30,000

During the year, the movements in share capital were as follows:

(a) On 17 April 2009, the subscription rights attaching to 3,010,000 share options were exercised at the subscription price of HK$0.375 per share, resulting in the issue of 3,010,000 ordinary shares of the Company and new share capital of HK$151,000 and share premium of HK$978,000 (before issue expenses).

(b) On 23 July 2009, 100,000,000 shares of HK$0.05 each were issued for cash at a subscription price of HK$0.25 per share for a total cash consideration, before expenses, of HK$25,000,000. On the same date, 400,000,000 shares of HK$0.05 each were issued at the issue price of HK$0.25 per share as part of the consideration for the acquisition of subsidiaries *(note 31)*.

28. SHARE CAPITAL (Continued)

(c) On 2 September 2009, the subscription rights attaching to 33,000,000 share options were exercised at the subscription price of HK$0.40 per share, resulting in the issue of 33,000,000 ordinary shares of the Company and new share capital of HK$1,650,000 and share premium of HK$11,550,000 (before issue expenses).

(d) On 25 February 2010, all convertible bonds were converted into shares of the Company at the conversion price of HK$0.3 per share, resulting in the issue of 300,000,000 ordinary shares of the Company and new share capital of HK$15,000,000 and share premium of HK$83,442,000 (before issue expenses).

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 April 2008 and 1 April 2009	600,000,000	30,000	8,720	38,720
Share options exercised:				
Share option scheme *(note (a))*	3,010,000	151	978	1,129
Option agreements *(note (c))*	33,000,000	1,650	11,550	13,200
Issue of subscription shares *(note (b))*	100,000,000	5,000	20,000	25,000
Issue of acquisition shares *(note (b))*	400,000,000	20,000	80,000	100,000
Conversion of convertible bonds *(note (d))*	300,000,000	15,000	83,442	98,442
	1,436,010,000	71,801	204,690	276,491
Transfer from employee share-based compensation reserve	–	–	30,690	30,690
At 31 March 2010	**1,436,010,000**	**71,801**	**235,380**	**307,181**

Share options

Details of the Company's share option scheme and the share options issued under the scheme and other option arrangements are included in note 29 to the financial statements.

29. EQUITY COMPENSATION PLANS

(a) Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the holders of securities of the Group. The Scheme became effective on 5 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 60,000,000, representing 10% of the shares of the Company in issue as at the date of listing of the Company and 4.18% of the shares of the Company as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

A grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted, to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

29. EQUITY COMPENSATION PLANS (Continued)

(a) Share Option Scheme (Continued)

The following share options were outstanding under the Share Option Scheme during the year:

	2010 Weighted average exercise price HK$ per share	**2010** Number of options	2009 Weighted average exercise price HK$ per share	2009 Number of options
At the beginning of year	**0.375**	**4,300,000**	0.375	5,500,000
Exercised during the year	**0.375**	**(3,010,000)**	–	–
Lapsed during the year	**–**	**–**	0.375	(1,200,000)
At the end of year	**0.375**	**1,290,000**	0.375	4,300,000

On 17 April 2009, 3,010,000 share options were exercised which result in the issue of 3,010,000 ordinary shares of the Company and new share capital of HK$151,000 and share premium of HK$978,000 (before issue expenses), as further detailed in note 28 to the financial statements.

The exercise prices and exercise periods of the Share Option Scheme outstanding as at the end of the reporting period are as follows:

2010

Number of options	**Exercise price* HK$ per share**	**Exercise period****
330,000	**0.375**	**9-9-2003 to 8-9-2012**
960,000	**0.375**	**9-9-2003 to 8-9-2012**
1,290,000		

2009

Number of options	Exercise price* HK$ per share	Exercise period**
1,100,000	0.375	9-9-2003 to 8-9-2012
3,200,000	0.375	9-9-2003 to 8-9-2012
4,300,000		

* *The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.*

29. EQUITY COMPENSATION PLANS (Continued)

(a) Share Option Scheme (Continued)

** *The exercise period is nine years from 9 September 2003 to 8 September 2012 (a "Year" shall mean the period from 9 September to 8 September of the next year), provided that (i) subject to the options that the grantee is entitled to exercise but has not yet exercised and the shares of the Company that may be subscribed by the grantee in respect of such unexercised options in the previous relevant Year(s), no more than 10% of the total number of shares under the options granted (the "Total Number") may be subscribed in each Year; (ii) the remaining 10% of the Total Number may be subscribed at any time during the period commencing on 9 September 2007 to 8 September 2012; (iii) where any part of the option has not been exercised during the relevant Year(s), the part of the option which the grantee is entitled to exercise but has not yet exercised may be carried forward and (iv) no option can be exercised after 8 September 2012.*

The vesting period of the share options is from the date of grant until the commencement of exercise period.

(b) Option agreements

On 17 May 2009, the Company entered into option agreements with two directors of the Company and two other employees of the Group, pursuant to which the Company agreed to grant each of them an option to subscribe for shares of the Company in the consideration of HK$1 each subject to fulfillment of the conditions under the option agreements. The grant of the options is part of the incentive offered to the grantees for their past and forthcoming contribution to the diversification of the business of the Group to the food and beverage sector and the supervision of the newly acquired tea and other food products business. A total of 50,000,000 share options were subsequently granted on 23 July 2009.

The share options have an exercise price of HK$0.4 per share and the market price of the Company's share at the date of grant was HK$1.33 per share. The fair value of the options granted is estimated at the date of grant using the binomial model, taking into account the terms and conditions upon which the options were granted. The contractual life of the share options granted is five years. 75% of the share options are exercisable from the grant date while the remaining 25% are exercisable from the date falling six months from the grant date. The fair value of the options granted during the year was estimated on the date of grant using the following assumptions:

	2010
Dividend yield (%)	0
Historical volatility (%)	84
Expected volatility (%)	84
Risk-free interest rate (%)	1.712
Exercise multiple	2.2
Weighted average share price (HK$ per share)	1.33

The fair value of the share options granted during the year was HK$47,011,000 (HK$0.94 each), of which the Group recognised a share option expense of HK$47,011,000 during the year.

29. EQUITY COMPENSATION PLANS (Continued)

(b) Option agreements (Continued)

The following share options were outstanding under the option agreements during the year:

	2010 Weighted average exercise price HK$ per share	2010 Number of options	2009 Weighted average exercise price HK$ per share	2009 Number of options
At the beginning of year	–	–	–	–
Granted during the year	0.4	50,000,000	–	–
Exercised during the year	0.4	(33,000,000)	–	–
At the end of year	0.4	17,000,000	–	–

On 2 September 2009, an aggregate of 33,000,000 shares options were exercised which result in the issue of 33,000,000 ordinary shares of the Company and new share capital of HK$1,650,000 and share premium of HK$11,550,000 (before issue expenses), as further detailed in note 28 to the financial statements.

The exercise prices and exercise periods of the share options outstanding as at that the end of the reporting period are as follows:

2010

Number of options	Exercise price* HK$ per share	Exercise period**
1,500,000	0.4	23-7-2009 to 23-7-2014
2,500,000	0.4	23-1-2010 to 23-7-2014
500,000	0.4	23-7-2009 to 23-7-2014
3,500,000	0.4	23-1-2010 to 23-7-2014
2,250,000	0.4	23-7-2009 to 23-7-2014
5,750,000	0.4	23-1-2010 to 23-7-2014
250,000	0.4	23-7-2009 to 23-7-2014
750,000	0.4	23-1-2010 to 23-7-2014
17,000,000		

* *The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.*

** *The contractual life of the share options granted is five years. 75% of the share options are exercisable after the grant date while the remaining 25% are exercisable from the date falling six months from the grant date.*

The vesting period of the share options is from the date of grant until the commencement of exercise period.

At the date of approval of these financial statements, the Company had 1,290,000 share options outstanding with an exercise price of HK$0.375 per share and 17,000,000 share options outstanding with an exercise price of HK$0.4 per share, which represent approximately 1.3% of the Company's shares in issue as at that date.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 2002, and the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Equity component of convertible bonds HK$'000	Employee share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2008		8,720	46,999	–	–	(27,865)	27,854
Total comprehensive income for the year		–	–	–	–	25	25
At 31 March 2009 and 1 April 2009		8,720	46,999	–	–	(27,840)	27,879
Total comprehensive loss for the year		–	–	–	–	(67,258)	(67,258)
Issue of convertible bonds	*27*	–	–	28,250	–	–	28,250
Exercise of share options	*28*	43,218	–	–	(30,690)	–	12,528
Issue of subscription shares	*28*	20,000	–	–	–	–	20,000
Issue of acquisition shares	*28*	80,000	–	–	–	–	80,000
Conversion of convertible bonds	*27, 28*	83,442	–	(28,250)	–	–	55,192
Equity-settled share option arrangements	*29*	–	–	–	47,011	–	47,011
At 31 March 2010		**235,380**	**46,999**	**–**	**16,321**	**(95,098)**	**203,602**

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 2002, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of its contributed surplus in certain circumstances.

31. BUSINESS COMBINATION

On 23 July 2009, the Group acquired from Longrun Tea Asset Management Company Limited ("LTAMCL") for a consideration of HK$160,000,000, the entire share capital of Longrun Tea Wealth Creation Company Limited, the holding company of a group of companies comprising Longrun Tea Trading Company Limited ("LRTC") and Yunnan Longrun Business and Trade Company Limited ("YNLR") (collectively the "Longrun Group"), which are principally engaged in the distribution of tea and food products, and a shareholder's loan of HK$10,000,000. LTAMCL is a company which was beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively. The consideration was satisfied by the issue of 400,000,000 shares in the Company and the Acquisition CBs. The acquisition has been accounted for using the purchase method of accounting.

The fair values of the identifiable assets and liabilities of the Longrun Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying value** HK$'000
Property, plant and equipment	*13*	7	7
Intangible assets	*15*	47,858	–
Inventories		6,616	6,616
Trade receivables		1,264	1,264
Other receivables		3,868	3,868
Cash and cash equivalents		66,334	66,334
Other payables and accruals		(12,870)	(12,870)
Due to holding company		(54,348)	(54,348)
Due to a director		(10,889)	(10,889)
Deferred tax liabilities	*26*	(11,965)	–
		35,875	(18)
Goodwill arising on acquisition	*16*	116,920	
		152,795	

	Notes	HK$'000
Satisfied by:		
Issue of shares	*28(b)*	100,000
Issue of convertible bonds	*27*	60,000
Transaction costs directly attributable to the acquisition		2,795
Debt assigned to the Group		(10,000)
		152,795

31. BUSINESS COMBINATION (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries are as follows:

	HK$'000
Cash and bank balances acquired	66,334
Transaction costs directly attributable to the acquisition	(2,795)
Net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	63,539

The total acquisition cost of HK$152,795,000 comprised the allotment and issue of 400,000,000 shares in the Company at the issue price of HK$0.25 per share, the issue of convertible bonds with a nominal value of HK$60,000,000 and costs of HK$2,795,000 directly attributable to the acquisition and debt assigned to the Group of HK$10,000,000.

Since their acquisition, the Longrun Group has contributed HK$122,807,000 to the Group's turnover and profit of HK$37,233,000 to the results of the Group. If the combination had taken place at the beginning of the year, the revenue and the loss of the Group for the year would have been HK$162,343,000 and HK$30,539,000, respectively.

The goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and activities of the Longrun Group with those of the Group.

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

During the year, the Company acquired certain subsidiaries through the allotment of 400,000,000 shares in the Company and the issue of Acquisition CBs as further detailed in note 31 to the financial statements.

33. CONTINGENT LIABILITIES

As at 31 March 2010, the Company provided a guarantee given to a bank in connection with the banking facilities of HK$6,000,000 (2009: HK$6,000,000) granted to the Company's subsidiary.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases part of its factory under operating lease arrangements, with leases negotiated for one year. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustment according to the then prevailing market condition.

At 31 March 2010, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2010 **HK$'000**	2009 HK$'000
Within one year	**14**	–

34. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

The Group leases certain of its office building in the PRC and retail shops in Hong Kong under operating lease arrangements. Leases for properties are negotiated for terms ranging from six months to five years.

At 31 March 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**4,828**	–	**706**	–
In the second to fifth years, inclusive	**11,352**	–	**111**	–
After five years	**128**	–	**–**	–
	16,308	–	**817**	–

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments at the end of the reporting period.

	Group	
	2010	2009
	HK$'000	HK$'000
Contracted, but not provided for:		
Leasehold improvements	**3,550**	–

36. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions disclosed elsewhere in these financial statements, the Group had the following material transactions with related companies during the year:

		2010	2009
	Notes	**HK$'000**	HK$'000
Purchases of tea products from:			
Changning Longrun Tea Company Limited （昌寧縣龍潤茶業有限公司）	*(ii), (iii)*	**5,528**	–
Fengqing Longrun Tea Company Limited	*(ii), (iii)*	**13,326**	–
Yunxian Tialong Eco-Tea Company Limited	*(ii), (iii)*	**25,872**	–
Yunnan Longrun Tea Development Company Limited	*(ii), (iii)*	**4,516**	–
Yunnan Longrun Tea Group Limited	*(i), (iii)*	**9,748**	–
		58,990	–

36. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

(i) LRTG is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

(ii) The companies are wholly owned subsidiaries of LRTG.

(iii) The transactions were conducted at rates mutually agreed between the relevant parties.

The above transactions entered into by the Group during the year ended 31 March 2010 also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balances with related companies

In addition to those balances disclosed elsewhere in these financial statements, the Group had the following balances with related parties at the end of the reporting period:

(i) The amounts due to related parties, 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited) ("YLRP") and YLRT are unsecured, interest-free and have no fixed terms of repayment. YLRP is a wholly-owned subsidiary of Long Run Pharmaceuticals Group Limited, which is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

(ii) The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group

	2010	2009
	HK$'000	HK$'000
Short term employee benefits	**9,204**	6,849
Post-employment benefits	**164**	84
Equity-settled share option expense	**47,011**	–
	56,739	6,933

37. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain financial instruments being classified as financial assets at fair value through profit or loss as disclosed in note 21 to the financial statements, all financial assets and liabilities of the Company and the Group as at 31 March 2009 and 2010 are loans and receivables and financial liabilities stated at amortised cost, respectively.

38. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 March 2010, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 March 2010:

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Equity investments at fair value through profit or loss	352	–	–	352

During the year ended 31 March 2010, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. 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 receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2010			
Hong Kong dollar and Renminbi	**50**	**65**	**–**
Hong Kong dollar and Renminbi	**(50)**	**(65)**	**–**
2009			
Hong Kong dollar and Renminbi	50	76	–
Hong Kong dollar and Renminbi	(50)	(76)	–

* *Excluding retained profits*

Credit risk

The carrying amount of trade receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group has a significant concentration of credit risk in relation to trade receivables as the trade receivables due from the five largest customers accounted for 70% (2009: 69%) of the Group's trade receivables at the end of the reporting period.

The Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The allowance for trade receivables is based upon a review of the expected collectibility of all trade receivables.

With respect to credit risk arising from the other financial assets of the Group, comprising cash and cash equivalents and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure being equal to the carrying amounts of these instruments. There is no significant concentration of credit risk within the Group in relation to the other financial assets.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purposes.

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

Group

	2010			
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**8,582**	**10,253**	**214**	**19,049**
Trade payables	**4,529**	**–**	**–**	**4,529**
Other payables	**4,344**	**–**	**–**	**4,344**
Due to related companies	**4,115**	**–**	**–**	**4,115**
Due to directors	**955**	**–**	**–**	**955**
	22,525	**10,253**	**214**	**32,992**

	2009			
	On demand or within 1 year HK$'000	2 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	8,588	10,253	2,777	21,618
Trade payables	2,548	–	–	2,548
Other payables	2,817	–	–	2,817
Due to a related company	113	–	–	113
Due to directors	6,070	–	–	6,070
	20,136	10,253	2,777	33,166

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as trading equity investments (note 21) as at 31 March 2010. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The market equity index of the following stock exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and the respective highest and lowest points during the year were as follows:

	31 March 2010	**High/low 2010**	31 March 2009	High/low 2009
Hong Kong – Hang Seng Index	**21,239**	**23,100/13,412**	13,576	26,387/10,676

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments HK$'000	**Increase/ (decrease) in fair value of equity investments** %	**Increase/ (decrease) in loss before tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2010				
Investments listed in:				
Hong Kong – Held-for-trading	**352**	**40.92**	**(144)**	**–**
	352	**(40.92)**	**144**	**–**
2009				
Investments listed in:				
Hong Kong – Held-for-trading	232	50.26	(117)	–
	232	(50.26)	117	–

* *Excluding retained profits*

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objective of the Group's capital management is 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 shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. 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 years ended 31 March 2010 and 2009.

The Group monitors capital using a gearing ratio, which is calculated as the total liabilities over the total equity. The gearing ratios as at the end of the reporting period were as follows:

Group

	2010 **HK$'000**	2009 HK$'000
Total liabilities	**58,463**	37,061
Total equity	**303,642**	49,579
Gearing ratio	**19.3%**	74.8%

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 9 July 2010.