LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2898

Annual Report 2011

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 Hongkong 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

Chairman's Statement

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 2011.

The 2010/11 fiscal year was a remarkable year for the Company. For the year ended 31 March 2011, the Group has seen its revenue increased by 147% from its previous financial year. The favorable results can be attributed to the Group's increased success within the tea industry, its motivated and dedicated staff and management as well as its strong ability in expanding the distribution network within the market in The People's Republic of China ("PRC" or "China").

The tea product industry has maintained its steady growth along with the support of China's Central Government during the year under review, encouraging the development of the tea industry and bringing in new business opportunities. The Company has taken advantage of the positive trend in the market by actively growing the distribution channels of "Longrun"(龍潤) branded tea products and other food products as well as increasing its number of self-operated and franchised stores during the year under review.

Following the completion of acquisition of trendy teahouses – "茶物語 – Tea Story", the Group has opened more stores in the major cities in the PRC making our "茶物語 – Tea Story" network comprising 508 franchised teahouses as at the end of 2010/11 fiscal year. "茶物語 – Tea Story" targets the younger generation with popular food and beverage products, with an aim of further propagating the tea drinking culture within the PRC and encouraging future generations to indulge in the practice of tea consumption. With the provision of large variety of trendy food and beverage products including carbonated tea, cocoa beverages, fruit drinks, shakes, slushes and Taiwanese snacks and light refreshments, we geared up for the operations and expansion of "茶物語 – Tea Story" in the years to come where we see numerous business opportunities in the market.

Along with the Group's success in the tea and other food products industry, "Longrun"(龍潤) tea products won "The Most Popular Tea Award – Aged Tea Category" at the Hong Kong International Tea Fair and was also awarded with the China Renowned Trademark (中國馳名商標) by the "Trademark Office of The State Administration for Industry & Commerce of the PRC"(中國國家工商行政管理局商標局). Both achievements illustrate a high level of recognition for the quality of our tea products as well as the dedication by the "Longrun" (龍潤) brand within the tea market in the PRC.

Looking ahead, the Group will continue putting its resources towards expanding and developing its tea and other food products business whilst strengthening its position in the industry. It is our strategy to further expand our distribution network in the first- and second-tier cities in the PRC, enabling "Longrun"(龍潤) branded products to better penetrate across the PRC market. We will continue our bid towards developing into a leading tea products distributor while striving for excellence within the tea and other food products industry in the PRC.

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 shareholders.

Chiu Ka Leung
Chairman

Hong Kong, 17 June 2011

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 March 2011, the Group reported a substantial growth in revenue and executed a successful business turnaround. Revenue for the year ended 31 March 2011 soared 147% to approximately HK$394,955,000 (2010: HK$160,121,000), mainly attributable to the favourable performance of the tea and other food products business. Gross profit was HK$156,130,000, an increase of 107% compared to HK$75,489,000 last year.

The Group's business turnaround resulted in profit for the year attributable to owners of the Company amounting to HK$59,477,000 (2010: Loss for the year attributable to owners was HK$30,614,000). The improvement was mainly attributable to the contributions of the Group's tea and other food products, which started to bear fruit during the year under review. It was also due in part to the absence of the one-off share option expenses related to the grant of the Group's share options incurred last year. Basic earnings per share were HK4.13 cents against a loss per share of HK3.07 cents in the previous fiscal year.

BUSINESS REVIEW

Tea and other food products business

The Group's strategic emphasis was on distributing tea and other food products under the well-established "Longrun"（龍潤）brand in the PRC market. The "Longrun"（龍潤）tea products were purchased from 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited), a related company of the Company, and distributed through the Group's distribution network. The Group's focused efforts in developing the distribution business for tea and other food products have started bearing fruit during the year under review, generating a revenue of HK$347,125,000, representing 88% of the Group's total revenue.

"Longrun Tea"（龍潤茶）is a premium brand which is considered to be among the Top Ten Brands in Yunnan（雲南的「十大品牌」）, a major tea raising area. 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited) was designated the authorised manufacturer of tea products for World Expo 2010 held in Shanghai, China. It has also been selected by the Diaoyutai State Guesthouse（釣魚臺國賓館）as the appointed pu'erh tea manufacturer. The Group has been leveraging the enhanced awareness of the "Longrun"（龍潤）brand manifest in these endorsements to further expand its distribution network and customer base during the year under review.

It is the Group's strategy to further expand its distribution network in the first- and second-tier cities in the PRC, enabling "Longrun"（龍潤）branded products to better penetrate across the PRC market. Subsequent to the year end, the Group opened more stores in major cities in the PRC demonstrating the Group's commitment in developing the business.

The Group's acquisition of "茶物語 – Tea Story" – a franchised operation of trendy teahouses in the PRC was completed in October 2010 and has started generating income for the Group during the year under review. As at 31 March 2011, "茶物語 – Tea Story" network consisted of 508 franchised teahouses. The Group plans to expand its Tea Story network by adding 300 more stores in the upcoming year in major cities such as Beijing, Shanghai, Guangzhou, Xiamen, etc, mainly targeting the younger generation by providing a large variety of trendy food and beverage products including carbonated tea, cocoa beverages, fruit drinks, shakes, slushes and Taiwanese snacks and light refreshments.

The Group's first mega retail outlet in Kunming opened in July 2010 and delivered a satisfactory performance during the year under review. Sales from this outlet accounted for about 31% of the Group's total revenue. With a floor area of more than 25,000 square feet and operating 24 hours a day with close proximity to Kunming Wujiaba International Airport（昆明巫家壩國際機場）, this mega retail outlet, targeting both domestic and international tourists who are attracted by the renowned high quality of Yunnan teas, has benefitted from the robust growth of tourism in Yunnan Province.

Management Discussion and Analysis

Awards

In October 2010, the "Longrun"（龍潤）brand was awarded the China Renowned Trademark（中國馳名商標）by the "Trademark Office of The State Administration for Industry & Commerce of the PRC"（中國國家工商行政管理局商標局）. To promote the unique traditional and modern Chinese tea culture and products both domestically and internationally, the Group participated in the second Hong Kong International Tea Fair organised by the Hong Kong Trade Development Council in August 2010. The Tea Fair provided a solid platform with a diverse audience for the Group's tea products to enter the international marketplace. One of the Group's tea products also won "The Most Popular Tea Award – Aged Tea Category" at the Tea Fair. These achievements represent high level recognition of the quality and popularity of the "Longrun"（龍潤）brand and its tea products in the PRC.

Healthcare and Pharmaceutical Business

During the year under review, the business and operations of the Group's healthcare and pharmaceutical products business continued to make a steady contribution. Revenue from this division was approximately HK$47,830,000 (2010: HK$37,314,000), accounting for about 12% (2010: 23%) of the Group's total revenue. "Beauty and Healthy"（排毒美顏寶）remained as the Group's major revenue contributor in this segment, accounting for 3% (2010: 7%) of the Group's total revenue. Another popular product, "Chen Xiang Lu Bai Lu Pian"（陳香露白露片）, the indigestion remedy under the brand name "Yanta Pai"（雁塔牌）, ranked second in sales in the healthcare products business of the Group and accounted for 3% (2010: 6%) of the Group's total revenue.

PROSPECTS

Looking ahead, the Group plans to strengthen the leading position of its tea and other food products business in the PRC by expanding its sales and distribution network across the country. The Group has been promoting the traditional tea drinking culture among the younger generation. The Group aims to boost its presence in the trendy teahouse market sector by expanding the network of "茶物語 – Tea Story" trendy teahouses in the PRC.

As Yunnan Province is one of the most popular tourist destinations in China, the Group will further leverage its unique location advantage to tap into the tourist-related market in Yunnan Province and replicate this successful business model where applicable within Yunnan Province and other provinces in China. Apart from focusing on its current tea and other food products business, the Group is also exploring other business opportunities which would benefit the Group's overall development. Despite the challenging economic and competitive business environment in China, the Group remains cautiously optimistic about the outlook for 2011 and 2012.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2011, the Group had current assets of HK$259,585,000 (2010: HK$143,381,000) and cash and bank balances of HK$118,232,000 (2010: HK$44,262,000). The Group's current liabilities as at 31 March 2011 were HK$100,891,000 (2010: HK$47,142,000).

As at 31 March 2011, total equity was HK$376,065,000 (2010: HK$303,642,000). The Group had interest-bearing bank and other borrowings of HK$16,556,000 as at 31 March 2011 (2010: HK$18,224,000). The gearing ratio as at 31 March 2011, being the ratio of total liabilities to total equity, was 30% (2010: 19%).

Management Discussion and Analysis

EMPLOYEES

As at 31 March 2011, the Group had 442 employees (2010: 256 employees).

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 the Group and individual employees. The Group also makes available a share option scheme and offers discretionary bonus to its employees.

CONTINGENT LIABILITIES

As at 31 March 2011, the Company provided a guarantee to a bank in connection with the banking facilities of HK$6,000,000 (2010: HK$6,000,000) granted to a subsidiary of the Company.

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 US dollar and Renminbi in this regard.

PLEDGE OF THE GROUP'S ASSETS

As at 31 March 2011, the Group's bank deposits of HK$Nil (2010: HK$375,000) and leasehold land and buildings with an aggregate net book value of approximately HK$26,068,000 (2010: HK$27,248,000) 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 47, is the founder of the Group. He is the Chairman of the Board and of the Remuneration Committee, a member of the Executive Committee 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).

Ms. Yeh Shu Ping, aged 64, is the Vice-chairman of the Board and of the Remuneration Committee, the Chairman of the Executive Committee and the Chief Executive Officer 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 37, is 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 39, is 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 52, joined the Group in September 2004. He is 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 48, joined the Group in August 2002. He is 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 35, joined the Group in October 2006. He is 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 ten 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 41, 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 42, 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 42, 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 2011.

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance to maintain the 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. Key corporate governance principles and practices of the Company 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.

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 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.

The Executive Committee, comprising all the executive directors, 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 above-mentioned 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 list of directors (by category) 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 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 members of the Board have skills and experience appropriate for the business requirements and objectives of the Group. 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 policies, strategic plans and business goals formulated by the Board.

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. Subject to the approval of the Board, the term of office of directors will be renewed upon expiry of the existing one.

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"). In accordance with 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.

At the forthcoming annual general meeting of the Company (the "2011 AGM"), Dr. Chiu Ka Leung, Ms. Yeh Shu Ping and Mr. Lam Siu Hung 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 2011 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.

During the year ended 31 March 2011, the Board, through its meeting held on 9 July 2010 (in which Dr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. Lu Pingguo, Mr. Lam Siu Hung and Mr. Kwok Hok Lun 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 Company's annual general meeting held on 30 August 2010 (the "2010 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 will receive 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 2011, 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	6/7
Dr. Lu Pingguo	7/7
Independent non-executive directors	
Mr. Lam Siu Hung	7/7
Mr. Guo Guoqing	2/7
Mr. Kwok Hok Lun	5/7

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 2011.

In addition, the Company 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 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 and the Chief Executive Officer, 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 decisions. 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 2011, the Remuneration Committee has held 2 meetings. The members present at these meetings had generally reviewed the remuneration policy and structure of the Group, and delegated to the Company's executive directors the power to conduct an annual review on the remuneration packages of senior management and to make any appropriate adjustments. The attendance records of the foregoing 2 Remuneration Committee's meetings are set out as follows:

Name of Remuneration Committee Member	Attendance/Number of Remuneration Committee Meetings
Dr. Chiu Ka Leung *(Chairman)*	2/2
Ms. Yeh Shu Ping	2/2
Mr. Lam Siu Hung	2/2
Mr. Guo Guoqing	0/2
Mr. Kwok Hok Lun	2/2

Details of the remuneration of each director of the Company for the year ended 31 March 2011 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 2011, 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 2010 from the auditors of the Company;
- Review and discussion of the annual financial statements, results announcement and report for the year ended 31 March 2010, 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 2010 and the related accounting principles and practices adopted by the Group.

The external auditors were invited to attend all of 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's 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	0/3
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 2011.

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 2011. 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 2011 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 2011 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** HK$'000
Audit services	
– Annual audit for the year ended 31 March 2011	850
Non-audit services	
– Interim review for the six months ended 30 September 2010	240
TOTAL:	1,090

F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

Transparent and timely disclosure of corporate information enables shareholders and investors to make the best investment decision. 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 also 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.

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. Shareholders' meetings give shareholders an opportunity of having a direct dialogue with Board members. Board members and appropriate senior staff of the Group are available at the annual general meeting and other relevant shareholders' meetings to answer any questions raised by shareholders. At the 2010 AGM, the Chairman of the Board as well as the chairmen of the Audit Committee and the Remuneration Committee were present whereas at the Company's extraordinary general meeting held on 13 April 2011 (the "2011 EGM") (for considering the Company's continuing connected transaction), the Company's executive director and independent non-executive director were present to communicate with shareholders of the Company. The Company's senior management, who are well versed in the business activities and operations of the Group, had also attended these 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 shall be voted by poll pursuant to the Listing Rules. The poll voting results will 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 2011.

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. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2011 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 98.

The directors of the Company do not recommend the payment of any dividend in respect of the year (2010: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets and liabilities and non-controlling interests 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				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
REVENUE	**394,955**	160,121	38,781	41,371	46,563
PROFIT/(LOSS) BEFORE TAX	**84,126**	(18,886)	(5,507)	(19,226)	(14,129)
Income tax expense	**(25,347)**	(11,728)	–	–	–
PROFIT/(LOSS) FOR THE YEAR	**58,779**	(30,614)	(5,507)	(19,226)	(14,129)
Attributable to:					
Owners of the Company	**59,477**	(30,614)	(5,507)	(19,226)	(14,129)
Non-controlling interests	**(698)**	–	–	–	–
	58,779	(30,614)	(5,507)	(19,226)	(14,129)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
TOTAL ASSETS	**487,391**	362,105	86,640	103,382	105,242
TOTAL LIABILITIES	**(111,326)**	(58,463)	(37,061)	(49,790)	(35,256)
NON-CONTROLLING INTERESTS	**21**	–	–	–	–
	376,086	303,642	49,579	53,592	69,986

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 29 and 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles 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 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2011, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$186,890,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$10,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 46% of the total sales for the year and sales to the largest customer included therein amounted to approximately 10%. Purchases from the Group's five largest suppliers accounted for approximately 87% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 36%.

Dr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 51.01% in the Company's share capital, had beneficial interests in the five largest suppliers which accounted for approximately 87% 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 87% 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.

Report of the Directors

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 Articles, Dr. Chiu Ka Leung, Ms. Yeh Shu Ping and Mr. Lam Siu Hung 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 2011, except Dr. Lu Pingguo whose service contract commenced on 1 February 2011, 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.

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.

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 Board with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 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

As at 31 March 2011, 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 interested	Percentage+ of the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	739,244,500	51.01%
Ms. Yeh Shu Ping	Beneficial owner	43,995,500	3.03%
Mr. Jiao Shaoliang	Beneficial owner	770,000	0.05%
Dr. Lu Pingguo	Beneficial owner	14,000,000	0.96%

(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
Ms. Yeh Shu Ping	Beneficial owner	4,000,000	0.27%
Mr. Jiao Shaoliang	Beneficial owner	330,000	0.02%

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 2011.*

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 in 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 2011, none of the directors or chief executive of the Company had registered an interest or a 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 2011, 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 or as the Company is aware:

Long position in ordinary shares of the Company

Name	Nature of interest	Number of ordinary shares of the Company interested	Percentage+ of the Company's issued share capital
Guo Jinxiu	Interest held by spouse *(Note)*	739,244,500	51.01%
Chen Fang	Beneficial owner	110,000,000	7.59%
徐永鋒	Beneficial owner	100,000,000	6.90%

Note: 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".

\+ *The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2011.*

Save as disclosed above, as at 31 March 2011, no person, other than the directors of the Company, whose interests are set out in the section headed "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 of interests required to be kept pursuant to Section 336 of the SFO.

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.

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 as at 1 April 2010	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at at 31 March 2011	Date of grant of share options	Exercise period of share options	Exercise price per share
Mr. Jiao Shaoliang, Executive Director	330,000	–	–	–	330,000	9.9.2002	See note 1 below	HK$0.375
Employees working under continuous contracts – in aggregate	960,000	–	–	–	960,000	9.9.2002	See note 1 below	HK$0.375
Total	1,290,000	–	–	–	1,290,000			

Notes:

1. 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.

2. 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.

(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.

SHARE OPTIONS (Continued)

(B) Option agreements (Continued)

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

	Number of share options							
Name or category of option holder	Outstanding as at 1 April 2010	Granted during the year	Exercised during the year *(Note 1)*	Lapsed/ cancelled during the year	Outstanding as at 31 March 2011	Date of grant of share options	Exercise period of share options *(Note 2)*	Exercise price per share
Ms. Yeh Shu Ping, Executive Director	1,500,000	–	–	–	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
	4,000,000	–	–	–	4,000,000			
Dr. Lu Pingguo, Executive Director	500,000	–	(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
	4,000,000	–	(4,000,000)	–	–			
Employees working under continuous contracts	2,500,000	–	(2,500,000)	–	–	23.7.2009	23.7.2009 to 23.7.2014	HK$0.4
– in aggregate	6,500,000	–	(6,500,000)	–	–	23.7.2009	23.1.2010 to 23.7.2014	HK$0.4
	9,000,000	–	(9,000,000)	–	–			
Total	17,000,000	–	(13,000,000)	–	4,000,000			

Notes:

1. The weighted average closing price of shares immediately before the dates on which the options were exercised was HK$0.64.
2. The vesting period of the options is from the date of grant until the commencement of the exercise period.
3. 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

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 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 Ka Leung is the controlling shareholder and an executive director of the Company. Dr. Chiu Ka Leung (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 Ka Leung and thus a connected person of the Company within the meanings of the Listing Rules.

CONNECTED TRANSACTION (Continued)

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 31 December 2009 and 31 December 2010 would not be less than HK$20,000,000 and HK$60,000,000 ("2010 Guaranteed PAT"), respectively.

Upon reviewing the information available to the Board, it is confirmed that the 2010 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 2010.

CONTINUING CONNECTED TRANSACTION

During the year, the Group had the following continuing connected transaction, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

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 Ka Leung and Mr. Jiao Shaoliang were directly interested in 90% and 10%, respectively, 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 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; and (ii) the selling price of tea products of similar quality as that of 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.

Since the total annual purchase amount of the Tea Products under the Transaction for each of the two financial years ended/ending 31 March 2011 and 2012 has exceeded/is expected to exceed the maximum annual purchase amounts (the "Annual Caps") approved by the Company's independent shareholders at the extraordinary general meeting of the Company held on 14 July 2009 (being HK$183,000,000 for the year ended 31 March 2011 and HK$229,000,000 for the year ending 31 March 2012), independent shareholders' approval was sought at the 2011 EGM to revise the Annual Caps for the years ended/ending 31 March 2011 and 31 March 2012 to HK$240,000,000 and HK$310,000,000, respectively. At the 2011 EGM, the independent shareholders had also approved the Annual Cap of HK$370,000,000 for the year ending 31 March 2013. The aggregate purchase amount of the Tea Products under the Transaction for the year ended 31 March 2011 was HK$214,405,000, which is within the revised Annual Cap of HK$240,000,000.

The independent non-executive directors of the Company have reviewed the Transaction for the year ended 31 March 2011 and confirmed that the Transaction has been entered into by the Group: (a) in its ordinary and usual course of business; (b) on normal commercial terms and on terms not less favourable to the Group than those available from independent third parties; and (c) in accordance with the Purchase Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONTINUING CONNECTED TRANSACTION (Continued)

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

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 2011, 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 4 August 2011 to Monday, 8 August 2011 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on 8 August 2011, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, 3 August 2011.

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
17 June 2011

ERNST & YOUNG
安永

To the shareholders of Longrun Tea Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Longrun Tea Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 98, which comprise the consolidated and company statements of financial position as at 31 March 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2011, and of the Group's profit 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
17 June 2011

Consolidated Income Statement

Year ended 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	4	**394,955**	160,121
Cost of sales		**(238,825)**	(84,632)
Gross profit		**156,130**	75,489
Other income and gains	4	**4,343**	3,567
Selling and distribution costs		**(38,239)**	(12,696)
Administrative expenses		**(32,115)**	(25,331)
Share option expenses	30(b)	**–**	(47,011)
Amortisation of intangible assets	15	**(5,407)**	(3,256)
Fair value loss on derivative financial instruments, net		**–**	(4,160)
Other expenses		**(127)**	(695)
Imputed interest on convertible bonds	28	**–**	(4,282)
Other finance costs	6	**(459)**	(511)
PROFIT/(LOSS) BEFORE TAX	5	**84,126**	(18,886)
Income tax expense	9	**(25,347)**	(11,728)
PROFIT/(LOSS) FOR THE YEAR		**58,779**	(30,614)
Attributable to:			
Owners of the Company	10	**59,477**	(30,614)
Non-controlling interests		**(698)**	–
		58,779	(30,614)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**HK4.13 cents**	(HK3.07 cents)
Diluted		**HK4.11 cents**	(HK3.07 cents)

Consolidated Statement of Comprehensive Income

Year ended 31 March 2011

	2011 HK$'000	2010 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**58,779**	(30,614)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**7,751**	(105)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**7,751**	(105)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**66,530**	(30,719)
Attributable to:		
Owners of the Company	**67,244**	(30,719)
Non-controlling interests	**(714)**	–
	66,530	(30,719)

Consolidated Statement of Financial Position

31 March 2011

	Notes	31 March 2011 HK$'000	31 March 2010 HK$'000 (Restated)	1 April 2009 HK$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	13	**58,561**	50,704	51,010
Prepaid land lease payments	14	**5,672**	5,549	5,658
Deposits for acquisition of items of property, plant and equipment		**1,873**	709	–
Intangible assets	15	**44,540**	44,602	–
Goodwill	16	**116,920**	116,920	–
Deferred tax assets	27	**240**	240	240
Total non-current assets		**227,806**	218,724	56,908
CURRENT ASSETS				
Inventories	18	**17,892**	11,628	11,477
Trade receivables	19	**111,511**	66,446	9,831
Prepayments, deposits and other receivables	20	**11,620**	20,269	2,169
Financial assets at fair value through profit or loss	21	**279**	352	232
Tax recoverable		**51**	49	49
Pledged deposit	22	**–**	375	375
Cash and cash equivalents	22	**118,232**	44,262	5,599
Total current assets		**259,585**	143,381	29,732
CURRENT LIABILITIES				
Trade payables	23	**50,664**	4,529	2,548
Other payables and accruals	24	**27,237**	14,655	7,709
Interest-bearing bank and other borrowings	25	**16,051**	18,224	20,451
Due to related companies	37(b)	**1,811**	4,115	113
Due to directors	37(b)	**1,001**	955	6,070
Tax payable		**4,127**	4,664	–
Total current liabilities		**100,891**	47,142	36,891
NET CURRENT ASSETS/(LIABILITIES)		**158,694**	96,239	(7,159)
TOTAL ASSETS LESS CURRENT LIABILITIES		**386,500**	314,963	49,749

Consolidated Statement of Financial Position (Continued)

31 March 2011

	Notes	**31 March 2011 HK$'000**	31 March 2010 HK$'000 (Restated)	1 April 2009 HK$'000 (Restated)
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	*25*	**505**	–	–
Deferred tax liabilities	*27*	**9,930**	11,321	170
Total non-current liabilities		**10,435**	11,321	170
Net assets		**376,065**	303,642	49,579
EQUITY				
Equity attributable to owners of the Company				
Issued capital	*29*	**72,451**	71,801	30,000
Reserves	*31(a)*	**303,635**	231,841	19,579
		376,086	303,642	49,579
Non-controlling interests		**(21)**	–	–
Total equity		**376,065**	303,642	49,579

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2011

		Attributable to owners of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 31(a))*	Equity component of convertible bonds HK$'000	Employee share-based compensation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2009		30,000	8,720	300	–	–	7,037	3,522	49,579	–	49,579
Loss for the year		–	–	–	–	–	–	(30,614)	(30,614)	–	(30,614)
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	(105)	–	(105)	–	(105)
Total comprehensive loss for the year		–	–	–	–	–	(105)	(30,614)	(30,719)	–	(30,719)
Issue of convertible bonds	*28*	–	–	–	28,250	–	–	–	28,250	–	28,250
Exercise of share options	*29*	1,801	43,218	–	–	(30,690)	–	–	14,329	–	14,329
Issue of subscription shares	*29*	5,000	20,000	–	–	–	–	–	25,000	–	25,000
Issue of acquisition shares	*29*	20,000	80,000	–	–	–	–	–	100,000	–	100,000
Conversion of convertible bonds	*28,29*	15,000	83,442	–	(28,250)	–	–	–	70,192	–	70,192
Equity-settled share option arrangements	*30*	–	–	–	–	47,011	–	–	47,011	–	47,011
At 31 March 2010 and 1 April 2010		71,801	235,380*	300*	–*	16,321*	6,932*	(27,092)*	303,642	–	303,642
Profit for the year		–	–	–	–	–	–	59,477	59,477	(698)	58,779
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	7,767	–	7,767	(16)	7,751
Total comprehensive income for the year		–	–	–	–	–	7,767	59,477	67,244	(714)	66,530
Exercise of share options	*29*	650	16,773	–	–	(12,223)	–	–	5,200	–	5,200
Capital injection from non-controlling shareholders		–	–	–	–	–	–	–	–	693	693
At 31 March 2011		72,451	252,153*	300*	–*	4,098*	14,699*	32,385*	376,086	(21)	376,065

* *These reserve accounts comprise the consolidated reserves of HK$303,635,000 (2010: HK$231,841,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**84,126**	(18,886)
Adjustments for:			
Dividend income from listed investments	*4*	**(2)**	(2)
Imputed interest on convertible bonds		**–**	4,282
Other finance costs	*6*	**459**	511
Interest income	*4*	**(110)**	(57)
Fair value (gains)/losses for financial assets at fair value through profit or loss	*5*	**73**	(219)
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*	**6,282**	3,663
Recognition of prepaid land lease payments	*5*	**138**	134
Gain on disposal of items of property, plant and equipment, net	*5*	**(223)**	(31)
Amortisation of intangible assets	*5*	**5,407**	3,256
Equity-settled share option expense		**–**	47,011
Impairment of trade receivables	*5*	**–**	542
Write-down/(reversal of write-down) of inventories to net realisable value	*5*	**93**	(57)
		96,243	43,800
Decrease/(increase) in inventories		**(6,357)**	6,522
Increase in trade receivables		**(45,065)**	(55,893)
Decrease/(increase) in prepayments, deposits and other receivables		**8,649**	(14,225)
Decrease in amounts due to related companies		**(2,304)**	(40,346)
Increase/(decrease) in amounts due to directors		**46**	(10,004)
Increase in trade payables		**46,135**	1,981
Increase/(decrease) in other payables and accruals		**12,582**	(5,924)
Cash generated from/(used in) operations		**109,929**	(74,089)
PRC profits tax paid		**(27,275)**	(7,878)
Net cash flows from/(used in) operating activities		**82,654**	(81,967)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**110**	57
Purchases of items of property, plant and equipment		**(12,284)**	(3,255)
Additions to intangible assets		**(5,233)**	–
Acquisition of subsidiaries	*32*	**–**	63,539
Increase in deposits for acquisition of property, plant and equipment		**(1,164)**	(709)
Proceeds from disposal of items of property, plant and equipment		**223**	31
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	606
Dividend received from listed investments		**2**	2
Decrease in pledged time deposit		**376**	–
Net cash flows from/(used in) investing activities		**(17,970)**	60,271

Consolidated Statement of Cash Flows (Continued)

Year ended 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by non-controlling shareholders		693	–
Capital element of finance lease rental payments		(34)	–
Issue of shares from exercise of share options		5,200	14,329
Issue of subscription shares		–	25,000
Repayment of bank loans		(2,284)	(2,227)
Proceeds from issue of convertible bonds		–	30,000
Decrease in an amount due to a director		–	(6,000)
Interest paid		(440)	(511)
Interest element of finance lease rental payments		(19)	–
Net cash flows from financing activities		3,116	60,591
NET INCREASE IN CASH AND CASH EQUIVALENTS		67,800	38,895
Cash and cash equivalents at beginning of year		44,262	5,599
Effect of foreign exchange rate changes, net		6,170	(232)
CASH AND CASH EQUIVALENTS AT END OF YEAR		118,232	44,262
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	117,856	44,637
Non-pledge time deposit with original maturity of less than three months when acquired		376	–
Cash and cash equivalents as stated in the consolidated statement of financial position		118,232	44,637
Pledged time deposit with original maturity of less than three months when acquired		–	(375)
Cash and cash equivalents as stated in the consolidated statement of cash flows		118,232	44,262

Statement of Financial Position

31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**49**	55
Investments in subsidiaries	*17*	**159,507**	159,507
Total non-current assets		**159,556**	159,562
CURRENT ASSETS			
Due from subsidiaries	*17*	**105,496**	113,366
Other receivables	*20*	**186**	3,063
Cash and cash equivalents	*22*	**132**	132
Total current assets		**105,814**	116,561
CURRENT LIABILITIES			
Other payables and accruals	*24*	**1,931**	720
NET CURRENT ASSETS		**103,883**	115,841
Net assets		**263,439**	275,403
EQUITY			
Issued capital	*29*	**72,451**	71,801
Reserves	*31(b)*	**190,988**	203,602
Total equity		**263,439**	275,403

Yeh Shu Ping
Director

Jiao Shaoliang
Director

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. During the year, the Group was involved in the trading, manufacture and distribution of pharmaceutical products and trading and distribution of tea products and other food products.

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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Group for the year ended 31 March 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKFRS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 32 Amendments	Amendments to HKFRS 32 *Financial Instruments: Presentation – Classification of Right Issues*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC) – Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009*, HK Interpretation 4 and HK Interpretation 5, the adoption of above new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates and* HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 Leases – *Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group has reassessed its leases in Hong Kong and Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases. As substantially all the risks and rewards associated with the leases in Hong Kong have been transferred to the Group, the leases in Hong Kong have been reclassified from operating leases under "prepaid land lease payments" to finance leases under "property, plant and equipment". The corresponding amortisation has also been reclassified to depreciation. The effects of the above changes are summarised below:

	31 March 2011 HK$'000	31 March 2010 HK$'000	1 April 2009 HK$'000
Consolidated statement of financial position at			
Increase in property, plant and equipment	**15,953**	16,396	16,839
Decrease in current portion of prepaid land lease payments included in prepayments, deposits and other receivables	**(443)**	(443)	(443)
Decrease in prepaid land lease payments	**(15,510)**	(15,953)	(16,396)
	–	–	–

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(b) (Continued)

	2011 **HK$'000**	2010 HK$'000
Consolidated income statement for the year ended 31 March		
Decrease in recognition of prepaid land lease payments	**(443)**	(443)
Increase in depreciation of property, plant and equipment	**443**	443
	–	–

Due to the retrospective application of the amendments which has resulted in the restatement of items in the statement of financial position, a statement of financial position as at 1 April 2009, and the related notes affected by the amendments have been presented in these financial statements.

(c) HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The interpretation requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement. Prior to the adoption of this interpretation, the Group's term loan was classified in the consolidated statement of financial position separately as to current and non-current liability portions based on the maturity date of repayment. Upon the adoption of this interpretation, certain term loan has been reclassified entirely as a current liability. The interpretation has been applied by the Group retrospectively and comparative amounts have been restated. In addition, as a result of this change and as required by HKAS 1 *Presentation of Financial Statements*, these financial statements also include a statement of financial position as at 1 April 2009. Further details of the loan are disclosed in note 25 to the financial statements.

The above change has had no effect on the consolidated income statement. The effect on the consolidated statement of financial position is summarised as follows:

	31 March 2011 HK$'000	31 March 2010 HK$'000	1 April 2009 HK$'000
CURRENT LIABILITIES			
Increase in interest-bearing bank and other borrowings	**7,599**	9,940	12,224
NON-CURRENT LIABILITIES			
Decrease in interest-bearing bank and other borrowings	**(7,599)**	(9,940)	(12,224)

There was no impact on the net assets of the Group.

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[3]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[3]
HKFRS 9	*Financial Instruments*[5]
HKFRS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred tax: Recovery of Underlying Assets*[4]
HKAS 24 (Revised)	*Related Party Disclosures*[2]
HK(IFRIC) – Int 14 Amendments	Amendments to HK(IFRIC) – Int 14 *Prepayments of a Minimum Funding Requirement*[2]
HK(IFRIC) – Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[1]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC) – Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 *Effective for annual periods beginning on or after 1 July 2010*
2 *Effective for annual periods beginning on or after 1 January 2011*
3 *Effective for annual periods beginning on or after 1 July 2011*
4 *Effective for annual periods beginning on or after 1 January 2012*
5 *Effective for annual periods beginning on or after 1 January 2013*

HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures in HKFRS 7 Amendments. As the Group is not a first-time adopter of HKFRSs, the amendment will not have any financial impact on the Group.

HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt HKFRS 7 from 1 July 2011. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any financial impact on the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKFRS 12 Amendments introduce a rebuttable presumption that deferred tax on investment property carried at fair value under HKAS 40, *Investment property*, shall be measured reflecting the tax consequences of recovering the carrying amount of the investment property entirely through sale. The rebuttable presumption shall also apply when deferred tax arises from measuring investment property at fair value in a business combination if the entity will use the fair value model when subsequently measuring that investment property.

This presumption is rebutted when the investment property is depreciable and is "held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale". In this case, the deferred tax arising from the revaluation of the investment property is measured on the basis of the tax consequences of recovering the carrying amount through use.

The amendments also incorporated the requirements of HK(SIC) – Int 21 Income Taxes – *Recovery of revalued non-depreciable assets*, which is superseded once the amendments are effective.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

The amendments to HK(IFRIC) – Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC) – Int 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the Interpretation from 1 January 2011. As the Group has not re-negotiated the terms of a financial liability and issued equity instruments to settle the financial liability, the Interpretation is unlikely to have any material financial impact on the Group.

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

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS. The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Business combinations from 1 January 2010 (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

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

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

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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is 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:

Leasehold land under finance leases	Over the lease terms
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%
Collectibles	–

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.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at 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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

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 by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement in other expense.

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; or
- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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.

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 and all collateral has been realised or has been transferred to the Group.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 bank and other borrowings.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Convertible bonds (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) franchise income, on a time proportion basis based on the terms of the underlying franchise agreements;

(d) 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

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

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 30 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

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.

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. Foreign 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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 2011 was HK$240,000 (2010: HK$240,000). Further details are given in note 27.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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 2011 was HK$116,920,000 (2010: HK$116,920,000). More details are given in note 16.

Impairment of non-financial assets (other than goodwill)

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. 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 deposit, 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 and other 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) Operating segment

Year ended 31 March 2011

	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	47,830	347,125	394,955
Other revenue	2,323	1,685	4,008
	50,153	348,810	398,963
Segment results	8,335	97,876	106,211
Reconciliation:			
Interest income			110
Dividend income and other unallocated gains			225
Corporate and other unallocated expenses			(21,961)
Other finance costs			(459)
Profit before tax			84,126
Segment assets	75,746	292,608	368,354
Reconciliation:			
Deferred tax assets			240
Tax recoverable			51
Cash and cash equivalents			118,232
Corporate and other unallocated assets			514
Total assets			487,391
Segment liabilities	12,358	66,424	78,782
Reconciliation:			
Deferred tax liabilities			9,930
Tax payable			4,127
Interest-bearing bank and other borrowings			16,556
Corporate and other unallocated liabilities			1,931
Total liabilities			111,326
Other segment information:			
Depreciation and amortisation	3,547	8,280	11,827
Capital expenditure*	1,309	16,858	18,167

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

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Operating segment (Continued)

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 deposit			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)

(b) Geographical information

(i) Revenue from external customers:

	2011 **HK$'000**	2010 HK$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	**377,108**	145,260
Hong Kong	**16,199**	13,897
Elsewhere in Asia	**1,648**	964
	394,955	160,121

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

(ii) Non-current assets:

	2011 **HK$'000**	2010 HK$'000 (Restated)
The PRC, excluding Hong Kong	**199,660**	189,386
Hong Kong	**28,146**	29,338
	227,806	218,724

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

Information about major customers

Revenue of approximately HK$39,609,000 and HK$38,510,000 for the year ended 31 March 2011 was derived from sales to two major customers, including sales to a group of entities which are known to be under common control with these 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.

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:

	2011 HK$'000	2010 HK$'000
Revenue		
Sale of goods	**394,955**	160,121
Other income		
Franchise income	**1,468**	–
Dividend income from listed investments	**2**	2
Interest income	**110**	57
Subsidy income	**307**	2,169
Rental income	**17**	16
Others	**2,216**	566
	4,120	2,810
Gains		
Gain on disposal of items of property, plant and equipment, net	**223**	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
	223	757
	4,343	3,567

5. PROFIT/(LOSS) BEFORE TAX

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

	Notes	**2011** **HK$'000**	2010 HK$'000 (Restated)
Cost of inventories sold		**238,552**	84,627
Depreciation	*13*	**6,282**	3,663
Recognition of prepaid land lease payments	*14*	**138**	134
Amortisation of intangible assets	*15*	**5,407**	3,256
Minimum lease payments under operating leases:			
Offices and buildings		**7,185**	1,576
Auditors' remuneration		**850**	720
Employee benefits expense (excluding directors' remuneration in *note 7*):			
Wages and salaries		**19,750**	12,137
Equity-settled share option expense		**–**	24,446
Pension scheme contributions		**726**	432
		20,476	37,015
Impairment of trade receivables*	*19*	**–**	542
Fair value loss on derivative financial instruments, net		**–**	4,160
Write-down/(reversal of write-down) of inventories to net realisable value**		**93**	(57)
Foreign exchange differences, net		**58**	(334)
Gain on disposal of items of property, plant and equipment, net		**(223)**	(31)
Fair value (gains)/losses for financial assets at fair value through profit or loss		**73**	(219)
Gain on disposal of financial assets at fair value through profit or loss		**–**	(507)
Subsidy income***		**(307)**	(2,169)

* *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 by enterprises in Yunnan province, Mainland China. There are no unfulfilled conditions or contingencies related to those subsidies.*

6. OTHER FINANCE COSTS

	2011 **HK$'000**	2010 HK$'000 (Restated)
Interest on bank loans wholly repayable:		
Within five years	**440**	511
Interest on finance leases	**19**	–
	459	511

The analysis shows the finance costs of bank borrowings, including term loan which contains a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreement. For the years ended 31 March 2011 and 2010, the interest on bank loan which contains a repayment on demand clause amounted to HK$280,000 and HK$336,000 respectively.

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	
	2011 **HK$'000**	2010 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**216**	216
	216	216
Other emoluments:		
Salaries, allowances and benefits in kind	**3,725**	3,716
Equity-settled share option expense	**–**	22,565
Pension scheme contributions	**48**	48
	3,773	26,329
	3,989	26,545

In the prior 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 30 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 prior 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:

	2011 HK$'000	2010 HK$'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 (2010: 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
2011					
Executive directors:					
Dr. Chiu Ka Leung	–	1,548	–	12	1,560
Ms. Yeh Shu Ping	–	1,317	–	12	1,329
Mr. Jiao Shaoliang	–	612	–	12	624
Dr. Lu Pingguo	–	248	–	12	260
	–	3,725	–	48	3,773
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

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 two (2010: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the three (2010: two) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,996**	2,234
Equity-settled share option expense	**–**	24,446
Pension scheme contributions	**36**	24
	3,032	26,704

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

	Number of employees	
	2011	2010
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
	3	2

In the prior 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 30 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 prior 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 (2010: Nil). The corporate income tax provision of the Group in respect of operations in Mainland China has been calculated at 25% (2010: 25%) on the estimated assessable profits for the year based on the rate of tax prevailing in the jurisdictions in which the Group operates.

	2011 HK$'000	2010 HK$'000
Group:		
Current – Mainland China	**26,738**	12,542
Deferred tax credit *(note 27)*	**(1,391)**	(814)
Total tax charge for the year	**25,347**	11,728

A reconciliation of the tax expense applicable to profit/(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 – 2011

	Hong Kong HK$'000	**%**	**Mainland China HK$'000**	**%**	**Total HK$'000**	**%**
Profit/(loss) before tax	(14,512)		98,638		84,126	
Tax at the statutory or applicable tax rate	(2,395)	16.5	24,659	25.0	22,264	26.5
Income not subject to tax	(25)	0.2	–	–	(25)	–
Expenses not deductible for tax	17	(0.1)	1,415	1.4	1,432	1.7
Tax losses not recognised	2,643	(18.2)	586	0.6	3,229	3.7
Tax loss utilised from previous periods	(392)	2.7	(1,143)	(1.1)	(1,535)	(1.8)
Others	(18)	–	–	–	(18)	–
Tax at the Group's effective rate	(170)	1.1	25,517	25.9	25,347	30.1

9. INCOME TAX (Continued)

Group – 2010

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total 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)

10. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit/(loss) attributable to owners of the Company for the year ended 31 March 2011 includes a loss of HK$17,164,000 (2010: HK$67,258,000) which has been dealt with in the financial statements of the Company *(note 31(b))*.

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$59,477,000 (2010: loss of HK$30,614,000), and the weighted average number of ordinary shares of 1,439,996,301 (2010: 995,688,521) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$59,477,000. The weighted average number of ordinary shares used in the calculation is the 1,439,996,301 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of 5,500,657 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

12. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2011 (2010: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and 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	Collectibles* HK$'000	Total HK$'000
31 March 2011								
At 1 April 2010:								
Cost	60,863	4,965	2,149	1,443	11,825	2,725	–	83,970
Accumulated depreciation	(13,901)	(2,528)	(1,825)	(1,001)	(11,689)	(2,322)	–	(33,266)
Net carrying amount (restated)	46,962	2,437	324	442	136	403	–	50,704
At 1 April 2010, net of accumulated depreciation (restated)	46,962	2,437	324	442	136	403	–	50,704
Additions	–	5,698	330	2,099	217	2,650	1,940	12,934
Depreciation provided during the year	(2,595)	(2,442)	(217)	(383)	(142)	(503)	–	(6,282)
Exchange realignment	879	151	13	56	6	54	46	1,205
At 31 March 2011, net of accumulated depreciation	45,246	5,844	450	2,214	217	2,604	1,986	58,561
At 31 March 2011:								
Cost	62,151	10,936	2,531	3,607	12,509	4,551	1,986	98,271
Accumulated depreciation	(16,905)	(5,092)	(2,081)	(1,393)	(12,292)	(1,947)	–	(39,710)
Net carrying amount	45,246	5,844	450	2,214	217	2,604	1,986	58,561

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Land and buildings HK$'000 (Restated)	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Collectibles* HK$'000	Total HK$'000 (Restated)
31 March 2010								
At 1 April 2009:								
Cost	60,741	2,728	1,974	1,037	11,747	2,390	–	80,617
Accumulated depreciation	(11,308)	(1,864)	(1,564)	(940)	(11,541)	(2,390)	–	(29,607)
Net carrying amount	49,433	864	410	97	206	–	–	51,010
At 1 April 2009, net of accumulated depreciation	49,433	864	410	97	206	–	–	51,010
Additions	–	2,237	129	406	67	416	–	3,255
Acquisition of subsidiaries *(note 32)*	–	–	7	–	–	–	–	7
Depreciation provided during the year	(2,564)	(664)	(258)	(61)	(103)	(13)	–	(3,663)
Exchange realignment	93	–	36	–	(34)	–	–	95
At 31 March 2010, net of accumulated depreciation	46,962	2,437	324	442	136	403	–	50,704
At 31 March 2010:								
Cost	60,863	4,965	2,149	1,443	11,825	2,725	–	83,970
Accumulated depreciation	(13,901)	(2,528)	(1,825)	(1,001)	(11,689)	(2,322)	–	(33,266)
Net carrying amount	46,962	2,437	324	442	136	403	–	50,704

* *The amount represents the cost of jade held by the Group. In the opinion of the directors, the residual value of the jade is worth at least its net carrying amount at the end of the reporting period. Therefore, no depreciation nor impairment is provided for the current year.*

At 31 March 2011, the Group's land and buildings with net carrying amounts of HK$26,617,000 (2010: HK$27,821,000) and HK$18,629,000 (2010: HK$19,141,000) are situated in Hong Kong and Mainland China, respectively, and are held under medium term leases.

The net carrying amount of the Group's fixed assets held under finance lease included in the total amounts of land and buildings and motor vehicles at 31 March 2011 amounted to HK$26,617,000 (2010: HK$27,821,000) and HK$700,000 (2010: Nil), respectively.

At 31 March 2011, certain of the Group's land and buildings with net carrying amounts of approximately HK$26,068,000 (2010: HK$27,248,000) were pledged to secure certain 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 2011				
At 1 April 2010:				
Cost	32	12	21	65
Accumulated depreciation	(7)	(1)	(2)	(10)
Net carrying amount	25	11	19	55
At 1 April 2010, net of accumulated depreciation	25	11	19	55
Additions	17	2	8	27
Depreciation provided during the year	(25)	(3)	(5)	(33)
At 31 March 2011, net of accumulated depreciation	17	10	22	49
At 31 March 2011:				
Cost	49	14	29	92
Accumulated depreciation	(32)	(4)	(7)	(43)
Net carrying amount	17	10	22	49

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company (Continued)

	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

	2011 HK$'000	2010 HK$'000 (Restated)
Carrying amount at beginning of year (restated)	**5,683**	5,785
Recognised during the year	**(138)**	(134)
Exchange realignment	**266**	32
Carrying amount at end of year	**5,811**	5,683
Current portion included in prepayments, deposits and other receivables	**(139)**	(134)
Non-current portion	**5,672**	5,549

The leasehold land of the Group was held under a medium term lease and was situated in Mainland China.

15. INTANGIBLE ASSETS

Group

	Franchise network HK$'000	Trademarks and right to the use of trademarks HK$'000	Exclusive purchase right HK$'000	Total HK$'000
31 March 2011				
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
Cost at 1 April 2010, net of accumulated amortisation	–	11,613	32,989	44,602
Addition	2,617	2,616	–	5,233
Amortisation provided during the year	(262)	(1,533)	(3,612)	(5,407)
Exchange realignment	56	56	–	112
At 31 March 2011	2,411	12,752	29,377	44,540
At 31 March 2011:				
Cost	2,679	15,139	35,397	53,215
Accumulated amortisation	(268)	(2,387)	(6,020)	(8,675)
Net carrying amount	2,411	12,752	29,377	44,540

	Franchise network HK$'000	Trademarks and right to the use of trademarks HK$'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 32)*	–	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 2011 HK$'000	2010 HK$'000
Cost at beginning of year	**116,920**	–
Acquisition of subsidiaries *(note 32)*	**–**	116,920
Cost and net carrying amount at end of year	**116,920**	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 five-year period approved by senior management. The discount rate applied to the cash flow projections is 16% (2010: 16%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2010: 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 2011. 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 2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**207,794**	207,794
Less: Return of capital *(note)*	**(25,000)**	(25,000)
Less: Impairment	**(23,287)**	(23,287)
	159,507	159,507

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 2011	2010	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 2011	2010	Principal activities
Longrun Tea Wealth Creation Company Limited ("Longrun Tea Wealth")	BVI	US$1	**100**	100	Investment holding
Longrun Tea Trading Company Limited	Hong Kong	HK$1	**100**	100	Investment holding, tea food trading, chain sales and 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**	100	Trading of tea products
Longrun Tea (HongKong) Chain Store Company Limited	Hong Kong	HK$1	**100**	100	Trading of tea products
雲南龍潤餐飲有限公司**#	The PRC/Mainland China	RMB2,000,000	**70.9**	–	Trading of tea products
湖南龍潤商貿有限公司**#	The PRC/Mainland China	RMB2,010,000	**70.9**	–	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.*

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 2011 HK$'000	2010 HK$'000
Trading goods	**4,259**	661
Finished goods	**5,965**	5,410
Work in progress	**3,070**	1,921
Raw materials	**4,350**	1,701
Packaging materials	**248**	1,935
	17,892	11,628

19. TRADE RECEIVABLES

	Group 2011 HK$'000	2010 HK$'000
Trade receivables	**112,053**	66,988
Impairment	**(542)**	(542)
	111,511	66,446

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:

	2011 HK$'000	2010 HK$'000
Current (neither past due nor impaired)	**92,699**	60,211
Within 1 to 3 months overdue	**17,165**	4,120
More than 3 months overdue but less than 12 months overdue	**1,599**	1,700
Over 12 months overdue	**48**	415
	111,511	66,446

19. TRADE RECEIVABLES (Continued)

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

	Group	
	2011	2010
	HK$'000	HK$'000
At beginning of year	**542**	–
Impairment losses recognised *(note 5)*	**–**	542
At end of year	**542**	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	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Prepayments	**3,038**	15,805	**–**	3,000
Deposits and other receivables	**8,582**	4,464	**186**	63
	11,620	20,269	**186**	3,063

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$870,000 (2010: 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.

Included in the Group's prepayments, deposits and other receivables as at 31 March 2010 was a prepayment for purchases 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	
	2011	2010
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**279**	352

The above equity investments at 31 March 2011 were classified as held for trading.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**117,856**	44,637	**132**	132
Time deposit	**376**	–	**–**	–
	118,232	44,637	**132**	132
Less: Pledged time deposit	**–**	(375)	**–**	–
Cash and cash equivalents	**118,232**	44,262	**132**	132

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$109,989,000 (2010: HK$31,270,000). 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:

	2011 HK$'000	2010 HK$'000
Current	44,048	–
Within 1 to 3 months overdue	4,619	3,942
More than 3 months overdue but less than 12 months overdue	1,593	319
Over 12 months overdue	404	268
	50,664	4,529

The trade payables are non-interest-bearing.

Included in the Group's trade payables are trade payables of HK$20,779,000 (2010: Nil), HK$18,482,000 (2010: HK$114,000), HK$195,000 (2010: HK$171,000), HK$3,726,000 (2010: HK$1,348,000) and HK$143,000 (2010: Nil) due to LRTG, YLRT, FLRT, 雲縣天龍生態茶業有限責任公司 Yunxian Tialong Eco-Tea Company Limited ("YTET") and 昌寧縣龍潤茶業有限公司 Changning Longrun Tea Company Limited ("CLRT"), respectively. YLRT, FLRT, YTET and CLRT are wholly owned subsidiaries of LRTG.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Receipts in advance	19,112	6,100	–	–
Accruals	6,006	4,211	1,931	720
Other payables	2,119	4,344	–	–
	27,237	14,655	1,931	720

The other payables and accruals are non-interest-bearing.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	31 March 2011			31 March 2010			1 April 2009	
	Effective contractual interest rate (%)	Maturity	HK$'000	Effective contractual interest rate (%)	Maturity	HK$'000	Maturity	HK$'000
Current								
Bank loan- secured	2.75	2012	6,000	2.75 – 3.28	2011	6,000	2010	6,000
Current portion of long term bank loan – secured *(Note)*	2.5	2012	2,341	2.5	2011	2,284	2010	2,227
Long term bank loan repayable on demand – secured *(Note)*	2.5	On demand	7,599	2.5	On demand	9,940	On demand	12,224
Finance lease payable *(note 26)*	4.5	2012	111	–	–	–	–	–
			16,051			18,224		20,451
Non-current								
Finance lease payable *(note 26)*	4.5	2013 – 2015	505	–	–	–	–	–
			16,556			18,224		20,451

	2011 HK$'000	2010 HK$'000 (Restated)
Analysed into:		
Bank loans repayable:		
Within one year or on demand *(Note)*	15,940	18,224
Other borrowing repayable:		
Within one year	111	–
In the second year	122	–
In the third to fifth years, inclusive	383	–
	616	–
	16,556	18,224

Note: As further explained in notes 2.2 and 41 to the financial statements, due to the adoption of HK Interpretation 5 in the current year, the Group's term loan of HK$9,940,000 (2010: HK$12,224,000) containing an on-demand clause has been reclassified as a current liability. For the purpose of the above analysis, the loan is included within current interest-bearing bank and other borrowings and analysed into bank loans repayable within one year or on demand.

Based on the maturity terms of the loan, the amounts repayable in respect of the loan are: within one year or on demand HK$2,341,000 (2010: HK$2,284,000); in the second year HK$2,401,000 (2010: HK$2,341,000); in the third to fifth years, inclusive HK$5,198,000 (2010: HK$7,386,000); and no balance beyond five years (2010: HK$213,000).

(a) The Group's bank loans were secured by mortgages over the Group's land and buildings with an aggregate net carrying amount of approximately HK$26,068,000 (2010: HK$27,248,000) as at 31 March 2011.

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

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

26. FINANCE LEASE PAYABLE

The Group leases one of its motor vehicles for its manufacturing and distribution of pharmaceutical products business. The lease is classified as a finance lease and has remaining lease terms of thirty-six months.

At 31 March 2011, the total future minimum lease payments under finance lease and its present value were as follows:

Group

	Minimum lease payments 2011 HK$'000	Minimum lease payments 2010 HK$'000	**Present value of minimum lease payments 2011 HK$'000**	Present value of minimum lease payments 2010 HK$'000
Amounts payable:				
Within one year	**159**	–	**111**	–
In the second year	**159**	–	**122**	–
In the third to fifth years, inclusive	**425**	–	**383**	–
Total minimum finance lease payments	**743**	–	**616**	–
Future finance charges	**(127)**	–		
Total net finance lease payables	**616**	–		
Portion classified as current liabilities *(note 25)*	**(111)**	–		
Non-current portion *(note 25)*	**505**	–		

27. 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 2009	170	–	170
Acquisition of subsidiaries *(note 32)*	–	11,965	11,965
Deferred tax credited to the income statement during the year *(note 9)*	–	(814)	(814)
At 31 March 2010 and 1 April 2010	170	11,151	11,321
Deferred tax credited to the income statement during the year *(note 9)*	(170)	(1,221)	(1,391)
Gross deferred tax liabilities at 31 March 2011	–	9,930	9,930

Deferred tax assets

Group	HK$'000
Gross deferred tax assets at 1 April 2009, 31 March 2010 and 31 March 2011	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	
	2011 HK$'000	2010 HK$'000	**2011 HK$'000**	2010 HK$'000
Tax losses	**59,573**	105,258	**23,007**	64,079
Deductible/(taxable) temporary differences	**(18)**	156	**–**	–
	59,555	105,414	**23,007**	64,079

The tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

27. DEFERRED TAX (Continued)

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 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 March 2011, 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$114,644,000 at 31 March 2011 (2010: HK$38,005,000).

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

28. 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 32)*. 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 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.

28. CONVERTIBLE BONDS (Continued)

The convertible bonds issued in the prior 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 prior 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 prior year	(70,192)
Liability component at the end of prior year	–

On 25 February 2010, all of the Subscription CBs and the Acquisition CBs were converted into ordinary shares in the Company *(note 29)*.

29. SHARE CAPITAL

	2011 **HK$'000**	2010 HK$'000
Authorised		
5,000,000,000 ordinary shares of HK$0.05 each	**250,000**	250,000
Issued and fully paid		
1,449,010,000 (2010: 1,436,010,000) ordinary shares of HK$0.05 each	**72,451**	71,801

On 4 October 2010 and 21 January 2011, 5,000,000 and 8,000,000 shares were issued, respectively, attributable to the exercise of share options at the subscription price of HK$0.40 per share, resulting in the issue of 13,000,000 ordinary shares of the Company and new share capital of HK$650,000 and share premium of HK$4,550,000 (before issue expenses).

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29. SHARE CAPITAL (Continued)

During the year, the movements in share capital were 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	3,010,000	151	978	1,129
Option agreements	33,000,000	1,650	11,550	13,200
Issue of subscription shares	100,000,000	5,000	20,000	25,000
Issue of acquisition shares	400,000,000	20,000	80,000	100,000
Conversion of convertible bonds	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 and 1 April 2010	1,436,010,000	71,801	235,380	307,181
Share options exercised:				
Option agreements	13,000,000	650	4,550	5,200
	1,449,010,000	72,451	239,930	312,381
Transfer from employee share-based compensation reserve	–	–	12,223	12,223
At 31 March 2011	1,449,010,000	72,451	252,153	324,604

Share options

Details of the Company's share option scheme and the share options issued under the scheme and other option arrangements in the prior years are included in note 30 to the financial statements.

30. EQUITY COMPENSATION PLANS

(a) Share Option Scheme

The Company operates a share option scheme (the "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 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 4.14% of the shares of the Company in issue as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the 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, is 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 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.

30. EQUITY COMPENSATION PLANS (Continued)

(a) Share Option Scheme (Continued)

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

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

	2011 Weighted average exercise price HK$ per share	**2011** Number of options	2010 Weighted average exercise price HK$ per share	2010 Number of options
At the beginning of year	**0.375**	**1,290,000**	0.375	4,300,000
Exercised during the year	**–**	**–**	0.375	(3,010,000)
At the end of year	**0.375**	**1,290,000**	0.375	1,290,000

No share options were exercised during the current year.

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

2011

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		

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		

30. EQUITY COMPENSATION PLANS (Continued)

(a) Share Option Scheme (Continued)

* *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 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 in the prior 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 in the prior year was HK$47,011,000 (HK$0.94 each), of which the Group recognised a share option expense of HK$47,011,000 in the prior year.

30. EQUITY COMPENSATION PLANS (Continued)

(b) Option agreements (Continued)

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

	2011		2010	
	Weighted average exercise price HK$ per share	Number of options	Weighted average exercise price HK$ per share	Number of options
At the beginning of year	0.4	17,000,000	–	–
Granted during the year	–	–	0.4	50,000,000
Exercised during the year	0.4	(13,000,000)	0.4	(33,000,000)
At the end of year	0.4	4,000,000	0.4	17,000,000

During the year, an aggregate of 13,000,000 shares options were exercised which resulted in the issue of 13,000,000 ordinary shares of the Company and new share capital of HK$650,000 and share premium of HK$4,550,000 (before issue expenses), as further detailed in note 29 to the financial statements.

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

2011

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
4,000,000		

30. EQUITY COMPENSATION PLANS (Continued)

(b) Option agreements (Continued)

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 4,000,000 share options outstanding with an exercise price of HK$0.4 per share, which together represent approximately 0.4% of the Company's shares in issue as at that date.

31. 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 33 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.

31. RESERVES (Continued)

(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 2009		8,720	46,999	–	–	(27,840)	27,879
Total comprehensive loss for the year		–	–	–	–	(67,258)	(67,258)
Issue of convertible bonds	28	–	–	28,250	–	–	28,250
Exercise of share options	29	43,218	–	–	(30,690)	–	12,528
Issue of subscription shares	29	20,000	–	–	–	–	20,000
Issue of acquisition shares	29	80,000	–	–	–	–	80,000
Conversion of convertible bonds	28,29	83,442	–	(28,250)	–	–	55,192
Equity-settled share option arrangements	30	–	–	–	47,011	–	47,011
At 31 March 2010 and 1 April 2010		235,380	46,999	–	16,321	(95,098)	203,602
Total comprehensive loss for the year		–	–	–	–	(17,164)	(17,164)
Exercise of share options	29	16,773	–	–	(12,223)	–	4,550
At 31 March 2011		252,153	46,999	–	4,098	(112,262)	190,988

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.

32. BUSINESS COMBINATION

Business combination of Longrun Tea Wealth Creation Company Limited in the prior year

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.

32. BUSINESS COMBINATION (Continued)

The fair values of the identifiable assets and liabilities of the Longrun Group as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	13	7
Intangible assets	15	47,858
Inventories		6,616
Trade receivables		1,264
Other receivables		3,868
Cash and cash equivalents		66,334
Other payables and accruals		(12,870)
Due to holding company		(54,348)
Due to a director		(10,889)
Deferred tax liabilities	27	(11,965)
		35,875
Goodwill arising on acquisition	16	116,920
		152,795
Satisfied by:		
Issue of shares		100,000
Issue of convertible bonds	28	60,000
Transaction costs directly attributable to the acquisition		2,795
Debt assigned to the Group		(10,000)
		152,795

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 a debt assigned to the Group of HK$10,000,000.

32. BUSINESS COMBINATION (Continued)

Since their acquisition, the Longrun Group has contributed HK$122,807,000 to the Group's turnover and profit of HK$37,233,000 in the results of the Group for the year ended 31 March 2010. If the combination had taken place at the beginning of the prior year, the revenue and the loss of the Group for the prior 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.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

During the current year, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$650,000 (2010: Nil).

During the prior 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 32 to the financial statements.

34. CONTINGENT LIABILITY

As at 31 March 2011, the Company provided a guarantee given to a bank in connection with the banking facilities of HK$6,000,000 (2010: HK$6,000,000) granted to the Company's subsidiary.

35. OPERATING LEASES 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 2011, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2011	2010
	HK$'000	HK$'000
Within one year	**12**	14

35. OPERATING LEASES ARRANGEMENTS (Continued)

(b) As lessee

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

At 31 March 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**5,438**	4,828	**–**	706
In the second to fifth years, inclusive	**11,322**	11,352	**–**	111
After five years	**839**	128	**–**	–
	17,599	16,308	**–**	817

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following capital commitments at the end of the reporting period.

	Group	
	2011	2010
	HK$'000	HK$'000
Contracted, but not provided for:		
Leasehold improvements	**1,253**	3,550

37. 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:

		2011	2010
	Notes	**HK$'000**	HK$'000
Purchases of tea products from:			
Changning Longrun Tea Company Limited	*(ii), (iii)*	**27,251**	5,528
Fengqing Longrun Tea Company Limited	*(ii), (iii)*	**28,978**	13,326
Yunxian Tialong Eco-Tea Company Limited	*(ii), (iii)*	**23,007**	25,872
Yunnan Longrun Tea Development Company Limited	*(ii), (iii)*	**45,907**	4,516
Yunnan Longrun Tea Group Limited	*(ii), (iii)*	**89,262**	9,748
		214,405	58,990

37. RELATED PARTY TRANSACTIONS

(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 2011 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

	Group	
	2011	2010
	HK$'000	HK$'000
Short term employee benefits	**9,720**	9,204
Post-employment benefits	**143**	164
Equity-settled share option expense	**–**	47,011
	9,863	56,379

38. 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 2010 and 2011 are loans and receivables and financial liabilities stated at amortised cost, respectively.

39. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's and the Company's financial instruments as at 31 March 2011 and 2010 are approximate to their fair values.

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 2011, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 March 2011 and 2010:

31 March 2011	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Equity investments at fair value through profit or loss	**279**	**–**	**–**	**279**

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 years ended 31 March 2011 and 2010, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

40. 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 credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 60% (2010: 70%) 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.

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 contractual undiscounted payments, was as follows:

Group

	2011		
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	6,174	584	6,758
Term loan subject to a repayment on demand clause *(Note)*	10,466	–	10,466
Trade payables	50,664	–	50,664
Other payables	2,119	–	2,119
Due to related companies	1,811	–	1,811
Due to directors	1,001	–	1,001
	72,235	584	72,819

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	2010	
	On demand or within 1 year HK$'000 (Restated)	Total HK$'000 (Restated)
Interest-bearing bank and other borrowings	6,020	6,020
Term loan subject to a repayment on demand clause *(Note)*	13,029	13,029
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
	32,992	32,992

Note: The loan agreement contains a repayment on demand clause giving the bank the unconditional right to call in the loan with principal amounting to HK$9,940,000 (2010: HK$12,224,000) at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding in the above clause, the directors of the Company do not believe that the loan will be called in its entirety within 12 months, and they consider that the loan will be repaid in accordance with the maturity dates as set out in the loan agreement. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loan, the contractual undiscounted payments at 31 March 2011 are HK$2,563,000 in 2012, HK$2,563,000 in 2013, HK$2,563,000 in 2014, HK$2,563,000 in 2015 and HK$214,000 in 2016. In accordance with the terms of the loan, the contractual undiscounted payments at 31 March 2010 are HK$2,563,000 in 2011, HK$2,563,000 in 2012, HK$2,563,000 in 2013, HK$2,563,000 in 2014, HK$2,563,000 in 2015 and HK$214,000 in 2016.

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 2011 and 2010.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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

	2011 HK$'000	2010 HK$'000
Total liabilities	**111,326**	58,463
Total equity	**376,065**	303,642
Gearing ratio	**29.6%**	19.3%

41. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment, and a third statement of financial position as at 1 April 2009 has been presented.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 June 2011.