LONGRUN TEA GROUP COMPANY LIMITED

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

Annual Report 2012

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*
Dr. Liu Zhonghua	*Independent Non-executive Director*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Dr. Chiu Ka Leung *Chairman*
Mr. Lam Siu Hung
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua

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
22/F, CITIC Tower, 1 Tim Mei Avenue,
Central, Hong Kong.

LEGAL ADVISERS

As to Hong Kong law:

Hastings & Co.
5/F, 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
DBS Bank (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited
The Bank of East Asia, Limited

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 2012.

2011/12 was a difficult year for the Company. On account of the slowdown of the growth of the global economy, the threat of the stability of the European Union zone and the risk of the insolvency of Greece, the Group has suffered a slight decrease in the revenue. Moreover, the inflationary environment in The People's Republic of China ("PRC" or "China") also dampened the results of the Group for the year ended 31 March 2012.

Despite the tough environment, the expansion of the Group's retail network has still maintained its steady growth together with the increase in the popularity of the "Longrun"(龍潤) brand in the PRC. Our second mega retail outlet was opened on 15 January 2012 with a total floor size over 10,000 square feet, which locates at World Horticultural Expo Garden in Kunming, Yunnan Province. World Horticultural Expo Garden is a first-class botanical garden, a venue for the 1999 Kunming International Horticulture Exposition, where it transplants and cultivates more than 2,500 kinds of plant and it becomes a significant Kunming landmark.

The Group always strives to promote its product quality. In January 2012, an organic certification was granted by the Institute for Marketecology certifying that "Longrun"(龍潤) tea products meet the requirements of organic agricultural production and organic products processing. This is an achievement to recognize that our products are "Organic" and our "Organic" products can be marketed to the United States of America and the European Union, Japan, etc.

Looking ahead, with the escalating costs pressure and the continuing slowdown of the PRC economy, the management believes that the retail environment will become more challenging. The Group will continue to impose cost effective strategies to optimize the operation efficiency. In addition, we will continue to look for potential mergers and acquisitions opportunities so as to improve the Group's overall profitability.

Appreciation

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

Chiu Ka Leung
Chairman

Hong Kong, 22 June 2012

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 March 2012, revenue of the Group decreased by 13% to approximately HK$344,258,000 (2011: HK$394,955,000). Gross profit of the Group decreased by 1% to approximately HK$154,288,000 (2011: HK$156,130,000).

Profit for the year was approximately HK$32,597,000 (2011: HK$58,779,000), down approximately 45% year-on-year. Profit attributable to owners of the Company amounted to approximately HK$36,028,000 (2011: HK$59,477,000), down approximately 39% year-on-year. The decrease in profit is mainly attributable to increase in operating costs, in particular: (i) the salary and wages as a result of the inflationary environment in Mainland China; and (ii) additional expenditures incurred in advertising and marketing for business development in the Group's traditional tea business and trendy teahouse business. Basic earnings per share were HK2.49 cents against earnings per share of HK4.13 cents in the previous fiscal year.

BUSINESS REVIEW

Tea and other food products business

During the year under review, the Group focused on distributing tea and other food products under the well-established "Longrun"(龍潤) brand in the PRC market. The Group actively expanded its distribution network and customer base during the year.

Revenue for the year from tea and other food products businesses was approximately HK$293,093,000 (2011: HK$347,125,000), accounting for about 85% (2011: 88%) of the Group's total revenue.

Tea Shops

As at 31 March 2012, we manage a network comprising a total of over 165 self-owned and franchised tea shops across Mainland China. Our traditional and convenience tea products, i.e. tea cakes, loose tea leaves, tea gift sets, convenience tea-cups, instant tea essence and tea bags, etc., are sold in these shops. In addition, we have launched more than 30 convenience tea shops in Yunnan, Shandong and Guangdong Provinces. Most of these shops are located close to the business centre and office buildings, and primarily sell and distribute convenience tea products for office use, such as convenience tea-cups, instant tea essence and tea bags.

Mega Retail Outlet Targeting Tourists

A new mega retail outlet targeting both domestic and international tourists travelling to Yunnan Province was opened on 15 January 2012. The Group now operates 2 mega retail outlets in Kunming, Yunnan Province with a gross total floor area over 30,000 square feet.

Location of Mega Retail Outlet	Highlight
Kunming International Convention & Exhibition Centre (昆明國際會展中心)	Close proximity to the Kunming Wujiaba International Airport (昆明巫家壩國際機場)
World Horticultural Expo Garden (昆明世界園藝博覽園)	A must-go tourist attraction in Kunming

Sales derived from these mega retail outlets have been satisfactory. Given the robust growth of tourism in Yunnan Province, prospects for these mega retail outlets are promising.

Management Discussion and Analysis

Trendy Teahouses (茶物語 – Tea Story)

"茶物語 – Tea Story" is our franchised operation of trendy teahouses in the PRC mainly targeting the younger generation. The principal products served in "茶物語 – Tea Story" teahouses include bubble teas, cocoa beverages, fruit drinks, shakes, slushies, Taiwanese snacks and light refreshments. As at 31 March 2012, we had expanded our "茶物語 – Tea Story" network to more than 850 franchised teahouses, mainly located in Beijing and Shanghai Municipalities and Hunan, Guangdong, Fujian and Jiangsu Provinces.

Award and Accreditation

In August 2011, "Longrun"（龍潤）tea products were awarded the "Champion of Black Tea Category" and "1st Runner-up in Aged Tea Category" in the 3rd Hong Kong International Tea Fair organized by the Hong Kong Trade Development Council.

In January 2012, an Organic Certification was granted by the Institute for Marketecology* (IMO) certifying that "Longrun"（龍潤）tea products meet the requirements laid down in Regulation (EC) No 834/2007 and Regulation (EC) No 889/2008. The tea production is (i) organic agricultural production and (ii) processing of organic products. The Organic Certification is widely used as an independent recognition for organic food products. With such certification, the products can be marketed as "Organic" for developed markets in the United States of America, the European Union, Japan, etc.

* *The Institute for Marketecology (IMO) is an internationally recognized, leading institute for inspection, certification and quality assurance of eco-friendly products founded in Switzerland in 1990.*

Healthcare and Pharmaceutical Business

During the year under review, the Group's healthcare and pharmaceutical products business continued to make a steady contribution. Revenue from this division was approximately HK$51,165,000 (2011: HK$47,830,000), accounting for about 15% (2011: 12%) of the Group's total revenue. "Beauty and Healthy"（排毒美顏寶）remained the Group's major revenue contributor in this segment, accounting for 4% (2011: 3%) of the Group's total revenue during the year.

PROSPECTS

2011/12 was a tough year given the global economy was in general still experiencing a downturn. The development of the Eurozone debt crisis and the pace of recovery for the United States were uncertain. The domestic economy of the PRC also suffered a continued downturn with ongoing inflationary pressure. The management believes the PRC economy will continue to face the challenges from instabilities in the global economy and the slower growth forecast in coming years.

For the year under review, the Group made steady progress in expanding its distribution network of tea business in China. However, the Group's results were adversely affected by the pressure from inflation and increasing labour costs for both its tea and healthcare divisions.

The growth of China's GDP has continued to slow down and to hit new lows in recent years. Faced with a volatile and complicated domestic and international economic environment, the general operating environment in the PRC may continue to deteriorate in 2012/13.

Going forward, the management remains cautious about the general consumer market in Mainland China. The Group will leverage the high level of recognition of the quality and popularity of the "Longrun"（龍潤）brand to further expand its distribution network and customer base.

In light of rising operating costs in the PRC, the Group will also continue to optimize its operation efficiency and will implement cost-control strategies to maintain the Group's profitability in coming years.

The Group will continue to focus on its tea and other food products businesses and, at the same time, continue to explore and pursue potential mergers and acquisitions that can enhance the Group's profitability.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2012, the Group had current assets of HK$307,675,000 (2011: HK$259,585,000) and cash and bank balances of HK$87,811,000 (2011: HK$118,232,000). The Group's current liabilities as at 31 March 2012 were HK$100,069,000 (2011: HK$100,891,000).

As at 31 March 2012, total equity was HK$417,107,000 (2011: HK$376,065,000). The Group had interest-bearing bank and other borrowings of HK$12,762,000 as at 31 March 2012 (2011: HK$16,556,000). The gearing ratio as at 31 March 2012, being the ratio of total liabilities to total equity, was 29% (2011: 30%).

EMPLOYEES

As at 31 March 2012, the Group had 551 employees (2011: 442 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 2012, the Company provided a guarantee to a bank in connection with the banking facilities of HK$6,000,000 (2011: 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 2012, the Group's leasehold land and buildings with an aggregate net book value of approximately HK$24,889,000 (2011: HK$26,068,000) 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 48, is the founder of the Group. He is the Chairman of the Board and of the Nomination Committee, a member of the Remuneration Committee and 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 65, is the Vice-chairman of the Board, the chairman of the Executive Committee, a member of the Remuneration 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 38, 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 40, 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 53, joined the Group in September 2004. He is the Chairman of both the Audit Committee and the Remuneration Committee and a member of the Nomination 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 49, joined the Group in August 2002. He is a member of the Audit Committee, the Remuneration Committee and the Nomination 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 36, joined the Group in October 2006. He is a member of the Audit Committee, the Remuneration Committee and the Nomination 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.

Dr. Liu Zhonghua, aged 47, joined the Group in January 2012. He is a member of both the Remuneration Committee and the Nomination Committee of the Company. Dr. Liu holds a doctorate degree in Analytical Chemistry of Life from the Tsinghua University. He is currently a professor and supervisor for PhD candidates at the Department of Tea Science of Hunan Agricultural University. He also acts as a director, deputy director or committee member for various tea research institutes and a number of advisory committees on tea and plants in Mainland China. Dr. Liu is a renowned Chinese expert in the field of tea science and development and exploitation of functional ingredients from botanicals. He has led a number of national key scientific research projects and programs and published papers in many academic journals. He is also a key member of the editorial committees of certain academic journals. Dr. Liu has attained distinguished achievements in the fields of chemistry of functional ingredients of tea, process and comprehensive applications of tea, theories and new technologies for process of tea and for which he has received many awards. In addition, Dr. Liu is currently an independent director of Hunan Hansen Pharmaceutical Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002412). Dr. Liu had been an independent director of Hunan New Wellful Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600975).

Senior Management

Mr. Han Ping, Joseph, aged 42, 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 43, 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 43, 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

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 "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") has been revised and renamed as the "Corporate Governance Code and Corporate Governance Report" with effect from 1 April 2012. As this Corporate Governance Report covers the year ended 31 March 2012, all the corporate governance principles and code provisions mentioned herein refer to those stated in the CG Code, not the revised Corporate Governance Code.

The Board considers that during the year ended 31 March 2012, the Company has applied the principles and complied with the code provisions set out in the CG Code, except for the code provision E.1.2. Key corporate governance principles and practices of the Company as well as the details of the foregoing deviation 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 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.

Corporate Governance Report

A2. Board Composition

The Board comprises the following directors:

Executive directors:

Dr. Chiu Ka Leung	*(Chairman of the Board, Chairman of the Nomination Committee, Member of both the Executive Committee and the Remuneration Committee)*
Ms. Yeh Shu Ping	*(Vice-chairman of the Board, Chief Executive Officer, Chairman of the Executive Committee and Member 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 both the Audit Committee and the Remuneration Committee and Member of the Nomination Committee)*
Mr. Guo Guoqing	*(Member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*
Mr. Kwok Hok Lun	*(Member of the Audit Committee, the Remuneration Committee and the Nomination Committee)*
Dr. Liu Zhonghua	*(Member of both the Remuneration Committee and the Nomination 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 met the requirements of the Listing Rules for having not less than three independent non-executive directors, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. In addition, the independent non-executive directors of the Company represent more than one-third of the Board.

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.

Corporate Governance Report

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.

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"). According to the Articles, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. In addition, any new director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the first general meeting after appointment. The retiring directors are eligible for re-election by the shareholders at the respective general meetings. The above provisions comply with the code provision A.4.2 of the CG Code, which stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment.

Pursuant to the aforesaid provisions in the Articles, Dr. Liu Zhonghua, who has been appointed as an independent non-executive director of the Company with effect from 1 January 2012, will hold office until the forthcoming annual general meeting of the Company (the "2012 AGM"), whereas Mr. Jiao Shaoliang, Dr. Lu Pingguo and Mr. Kwok Hok Lun shall retire by rotation at the 2012 AGM. All the above four retiring directors, being eligible, will offer themselves for re-election at the 2012 AGM. The Board and the Nomination Committee recommended their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above four directors as required by the Listing Rules.

Corporate Governance Report

A5. Induction and Continuing Development for Directors

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

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

A6. Board Meetings

A6.1 Board Practices and Conduct of Meetings

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

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

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting to provide them with materials relating to the transactions to be discussed in the meeting in order to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, Financial Controller, Company Secretary and other relevant senior management normally attend regular Board meetings and, where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Group.

The Company Secretary is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to directors for comments within a reasonable time after each meeting and the final version is open for directors' inspection.

The Articles contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to the current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Corporate Governance Report

A6. Board Meetings (Continued)

A6.2 Directors' Attendance Records

During the year ended 31 March 2012, 4 regular Board meetings were 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 4 Board meetings are set out below:

Name of Director	Attendance/Number of Board Meetings
Executive directors	
Dr. Chiu Ka Leung	4/4
Ms. Yeh Shu Ping	4/4
Mr. Jiao Shaoliang	4/4
Dr. Lu Pingguo	4/4
Independent non-executive directors	
Mr. Lam Siu Hung	4/4
Mr. Guo Guoqing	1/4
Mr. Kwok Hok Lun	2/4
Dr. Liu Zhonghua *(Note)*	0/1

Note: Dr. Liu Zhonghua was appointed as an independent non-executive director of the Company on 1 January 2012. Subsequent to his appointment, there was 1 Board meeting held during the year ended 31 March 2012.

A6.3 Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code"). 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 throughout the year ended 31 March 2012.

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

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

Corporate Governance Report

B. BOARD COMMITTEES

To comply with the new code provision of the revised Corporate Governance Code, which requires a listed issuer to establish a nomination committee by 1 April 2012, the Board approved the setting up of its Nomination Committee on 28 February 2012. Accordingly, as at 31 March 2012, the Board has four Board committees, namely, the Executive Committee, the Remuneration Committee, the Audit Committee and the Nomination 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 on the Stock Exchange's website (www.hkexnews.hk) and on the Company's website (except for the terms of reference of the Executive Committee which is available to shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

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

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

B1. Executive Committee

The Executive Committee comprises all the executive directors of the Company with the Vice-chairman of the Board, Ms. Yeh Shu Ping, acting as the chairman of such Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business 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 Board approved the following changes in the composition of the Remuneration Committee on 28 February 2012. The changes as mentioned in points (i) and (ii) are for meeting the new Listing Rule requirement on having an independent non-executive director to chair a remuneration committee.

(i) Cessation of Dr. Chiu Ka Leung and Ms. Yeh Shu Ping as the chairman and the vice-chairman of the Remuneration Committee, respectively. They remain as members of the Remuneration Committee.

(ii) Appointment of Mr. Lam Siu Hung as the chairman of the Remuneration Committee.

(iii) Appointment of Dr. Liu Zhonghua as a member of the Remuneration Committee.

Accordingly, as at 31 March 2012, the Company's Remuneration Committee comprises a total of six members, being two executive directors, namely Dr. Chiu Ka Leung and Ms. Yeh Shu Ping, and four independent non-executive directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua. The majority of the Remuneration Committee members are independent non-executive directors.

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.

Corporate Governance Report

B2. Remuneration Committee (Continued)

During the year ended 31 March 2012, the Remuneration Committee has held 1 meeting in 2011 (with the presence of Ms. Yeh Shu Ping, Mr. Lam Siu Hung and Mr. Kwok Hok Lun and absence of Dr. Chiu Ka Leung and Mr. Guo Guoqing). The members present at the meeting 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.

Details of the remuneration of each director of the Company for the year ended 31 March 2012 are set out in note 7 to the financial statements contained in this annual report.

B3. Audit Committee

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun. The chairman of the Audit Committee is Mr. Lam Siu Hung who possesses 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 2012, 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 2011 by the auditors of the Company;

– Review and discussion of the annual financial statements, results announcement and report for the year ended 31 March 2011, 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 2011 and the related accounting principles and practices adopted by the Group.

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

Corporate Governance Report

B3. Audit Committee (Continued)

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.

B4. Nomination Committee

As mentioned above, the Nomination Committee was set up on 28 February 2012. It comprises a total of five members, being the Chairman of the Board, namely Dr. Chiu Ka Leung, and four independent non-executive directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua. Accordingly, a majority of the members are independent non-executive directors. The chairman of the Nomination Committee is Dr. Chiu Ka Leung.

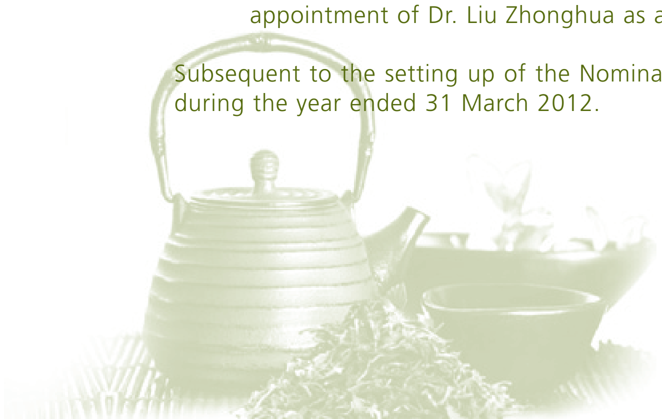
The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and recommending any changes to the Board; identifying qualified and suitable individuals to become Board members and selecting and making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular, the Chairman and the Chief Executive Officer of the Company.

Prior to the setting up of the Nomination Committee, the Board as a whole was responsible for the said duties of the Nomination Committee. The Board, through its meetings held on the following dates during the year ended 31 March 2012, performed the following works regarding matters relating to the board composition and nomination of directors:

(i) 17 June 2011 (with the presence of Dr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. Lu Pingguo and Mr. Lam Siu Hung and absence of Mr. Guo Guoqing and Mr. Kwok Hok Lun): 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; recommendation of the re-election of the retiring directors standing for re-election at the Company's annual general meeting held on 8 August 2011 (the "2011 AGM"); and assessment of the independence of all the Company's then independent non-executive directors.

(ii) 28 September 2011 (with the presence of Dr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. Lu Pingguo and Mr. Lam Siu Hung and absence of Mr. Guo Guoqing and Mr. Kwok Hok Lun): appointment of Dr. Liu Zhonghua as an independent non-executive director of the Company.

Subsequent to the setting up of the Nomination Committee, no Nomination Committee meeting was held during the year ended 31 March 2012.



Corporate Governance Report

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 2012.

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 2012. 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 2012 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 2012 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** HK$
Audit services	
– annual audit for the year ended 31 March 2012	920,000
Non-audit services	
– interim review for the six months ended 30 September 2011	265,000
TOTAL:	1,185,000

Corporate Governance Report

F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group recognizes the importance of transparent and timely disclosure of corporate information, which enables shareholders and investors to make the best investment decision. The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company maintains a website at www.longruntea.com as a communication platform with shareholders and investors, where information on the Company's announcements, financial information and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries. Inquiries are dealt with in an informative and timely manner.

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

Code provision E.1.2 of the CG Code stipulates that the chairman of a listed issuer should attend the issuer's annual general meeting. Dr. Chiu Ka Leung, the Chairman of the Company, was unable to attend the 2011 AGM due to his other business engagement. In view of his absence, Dr. Chiu had arranged for Dr. Lu Pingguo, the Company's executive director who is well versed in the Group's business activities and operations, to attend and chair the meeting and communicate with the shareholders. The Company Secretary and other senior management were also available to answer questions from shareholders at that meeting.

G. SHAREHOLDERS' RIGHTS

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

All resolutions put forward at shareholders' meetings of listed issuers shall be voted by poll pursuant to the Listing Rules. The poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company 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 2012.

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 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 94.

The directors of the Company do not recommend the payment of any dividend in respect of the year (2011: 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				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
REVENUE	**344,258**	394,955	160,121	38,781	41,371
PROFIT/(LOSS) BEFORE TAX	**60,891**	84,126	(18,886)	(5,507)	(19,226)
Income tax expense	**(28,294)**	(25,347)	(11,728)	–	–
PROFIT/(LOSS) FOR THE YEAR	**32,597**	58,779	(30,614)	(5,507)	(19,226)
Attributable to:					
Owners of the Company	**36,028**	59,477	(30,614)	(5,507)	(19,226)
Non-controlling interests	**(3,431)**	(698)	–	–	–
	32,597	58,779	(30,614)	(5,507)	(19,226)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March				
	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
TOTAL ASSETS	**539,931**	487,391	362,105	86,640	103,382
TOTAL LIABILITIES	**(122,824)**	(111,326)	(58,463)	(37,061)	(49,790)
NON-CONTROLLING INTERESTS	**3,177**	21	–	–	–
	420,284	376,086	303,642	49,579	53,592

Report of the Directors

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 28 and 29 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 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$168,766,000.

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 39% of the total sales for the year and sales to the largest customer included therein amounted to approximately 9%. Purchases from the Group's five largest suppliers accounted for approximately 83% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 34%.

Dr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 52.71% in the Company's share capital, had beneficial interests in the five largest suppliers which accounted for approximately 83% 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 83% 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
Dr. Liu Zhonghua (appointed on 1 January 2012)

In accordance with article 87 of the Articles, Mr. Jiao Shaoliang, Dr. Lu Pingguo and Mr. Kwok Hok Lun, being not less than one-third of the directors of the Company who are subject to retirement by rotation, will retire as directors of the Company by rotation at the 2012 AGM. In accordance with article 86(3) of the Articles, Dr. Liu Zhonghua, who was appointed by the Board on 1 January 2012, shall hold office until the 2012 AGM. The above retiring directors, being eligible, will offer themselves for re-election at the 2012 AGM.

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 2012 AGM 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 35 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.

Report of the Directors

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

As at 31 March 2012, the interests/short positions held by 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	Capacity	Number of ordinary shares	Percentage+ of the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	763,864,500	52.71%
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	Capacity	Number of underlying ordinary shares	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.

(C) Short position in underlying shares of the Company – physically settled unlisted equity derivatives

Name of director	Capacity	Number of underlying ordinary shares	Percentage+ of underlying shares over the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	42,857,143	2.95%

+ *The percentage represents the number of ordinary shares/underlying shares involved divided by the number of the Company's issued shares as at 31 March 2012.*

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.

Report of the Directors

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

Save as disclosed above and in the section headed "Share options" below, as at 31 March 2012, 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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2012, the following persons had interests/short positions of 5% or more of the issued shares of the Company according to the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(A) Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares	Percentage+ of the Company's issued share capital
Guo Jinxiu	Interest held by spouse *(Note)*	763,864,500	52.71%
Chen Fang	Beneficial owner	110,000,000	7.59%
徐永鋒	Beneficial owner	100,000,000	6.90%

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

Name	Capacity	Number of underlying ordinary shares	Percentage+ of underlying shares over the Company's issued share capital
Guo Jinxiu	Short position held by spouse *(Note)*	42,857,143	2.95%

Note: Guo Jinxiu, being the spouse of Dr. Chiu Ka Leung, was deemed to have such interest/short position held by Dr. Chiu Ka Leung. Such interest/short position of Dr. Chiu have 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/underlying shares involved divided by the number of the Company's issued shares as at 31 March 2012.*

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Save as disclosed above, as at 31 March 2012, no person, other than the directors of the Company, whose interests/short positions 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:

	Number of share options							
Name or category of option holder	Outstanding as at 1 April 2011	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 March 2012	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.

Report of the Directors

SHARE OPTIONS (Continued)

(B) Option agreements

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

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

	Number of share options							
Name or category of option holder	Outstanding as at 1 April 2011	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 March 2012	Date of grant of share options	Exercise period of share options *(Note 1)*	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
Total	4,000,000	–	–	–	4,000,000			

Notes:

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

2. 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.

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, 雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited) (formerly known as 雲南龍潤商貿有限公司 (Yunnan Longrun Business and Trade Company Limited)) ("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.

Report of the Directors

CONTINUING CONNECTED TRANSACTION (Continued)

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.

The maximum amount of purchase of Tea Products payable by PRC Longrun to Longrun Tea Group arising from the Transaction approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 13 April 2011 for each of the two financial years ended/ending 31 March 2012 and 31 March 2013 were HK$310,000,000 and HK$370,000,000, respectively. For the year ended 31 March 2012, the amount of fees paid to Longrun Tea Group under the Transaction amounted to HK$156,315,000, which was within the above maximum amount of HK$310,000,000.

The independent non-executive directors of the Company have reviewed the Transaction for the year ended 31 March 2012 and confirmed that the Transaction had 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 were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 Rule 14A.38 of 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.

Report of the Directors

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (Continued)

As at 31 March 2012, 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 Wednesday, 15 August 2012 to Friday, 17 August 2012 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the 2012 AGM to be held on 17 August 2012, 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 Tuesday, 14 August 2012.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the 2012 AGM.

ON BEHALF OF THE BOARD

Chiu Ka Leung
Chairman

Hong Kong
22 June 2012

Independent Auditors' report

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 30 to 94, which comprise the consolidated and company statements of financial position as at 31 March 2012, 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.

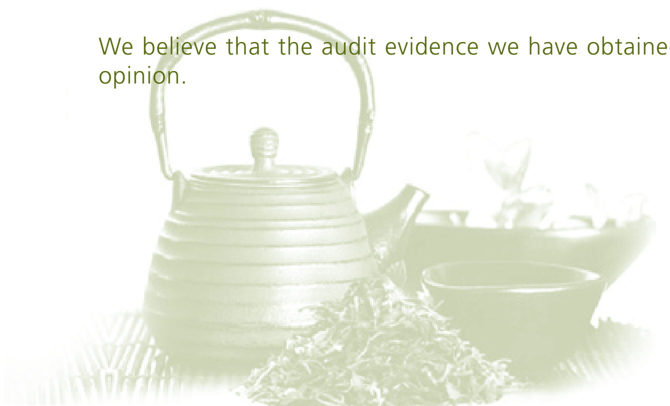
AUDITORS' RESPONSIBILITY

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.



Independent Auditors' report (Continued)

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 2012, 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
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
22 June 2012

Consolidated Income Statement

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	4	**344,258**	394,955
Cost of sales		**(189,970)**	(238,825)
Gross profit		**154,288**	156,130
Other income and gains	4	**12,706**	4,343
Selling and distribution costs		**(58,724)**	(38,239)
Administrative expenses		**(40,868)**	(32,115)
Amortisation of intangible assets	15	**(5,978)**	(5,407)
Other expenses		**(90)**	(127)
Finance costs	6	**(443)**	(459)
PROFIT BEFORE TAX	5	**60,891**	84,126
Income tax expense	9	**(28,294)**	(25,347)
PROFIT FOR THE YEAR		**32,597**	58,779
Attributable to:			
Owners of the Company	10	**36,028**	59,477
Non-controlling interests		**(3,431)**	(698)
		32,597	58,779
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**HK2.49 cents**	HK4.13 cents
Diluted		**HK2.49 cents**	HK4.11 cents

Consolidated Statement of Comprehensive Income

Year ended 31 March 2012

	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR	**32,597**	58,779
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**8,080**	7,751
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**8,080**	7,751
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**40,677**	66,530
Attributable to:		
Owners of the Company	**44,198**	67,244
Non-controlling interests	**(3,521)**	(714)
	40,677	66,530

Consolidated Statement of Financial Position

31 March 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**67,434**	58,561
Prepaid land lease payments	*14*	**5,728**	5,672
Deposits for acquisition of items of property, plant and equipment		**3,215**	1,873
Intangible assets	*15*	**38,719**	44,540
Goodwill	*16*	**116,920**	116,920
Deferred tax assets	*27*	**240**	240
Total non-current assets		**232,256**	227,806
CURRENT ASSETS			
Inventories	*18*	**16,587**	17,892
Trade receivables	*19*	**29,748**	111,511
Prepayments, deposits and other receivables	*20*	**22,481**	11,620
Financial assets at fair value through profit or loss	*21*	**257**	279
Tax recoverable		**–**	51
Time deposits with original maturity of more than three months		**150,791**	–
Cash and cash equivalents	*22*	**87,811**	118,232
Total current assets		**307,675**	259,585
CURRENT LIABILITIES			
Trade payables	*23*	**17,472**	50,664
Other payables and accruals	*24*	**44,483**	27,237
Interest-bearing bank and other borrowings	*25*	**12,014**	16,051
Due to related companies	*35(b)*	**818**	1,811
Due to directors	*35(b)*	**7,364**	1,001
Tax payable		**17,918**	4,127
Total current liabilities		**100,069**	100,891
NET CURRENT ASSETS		**207,606**	158,694
TOTAL ASSETS LESS CURRENT LIABILITIES		**439,862**	386,500
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*25*	**748**	505
Deferred income		**10,225**	–
Deferred tax liabilities	*27*	**11,782**	9,930
Total non-current liabilities		**22,755**	10,435
Net assets		**417,107**	376,065

Consolidated Statement of Financial Position (Continued)

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*28*	**72,451**	72,451
Reserves	*30(a)*	**347,833**	303,635
		420,284	376,086
Non-controlling interests		**(3,177)**	(21)
Total equity		**417,107**	376,065

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2012

		Attributable to owners of the Company								
	Notes	**Issued capital** HK$'000	**Share premium account** HK$'000	**Contributed surplus** HK$'000 *(note 30(a))*	**Employee share-based compensation reserve** HK$'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 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 and 1 April 2011		72,451	252,153*	300*	4,098*	14,699*	32,385*	376,086	(21)	376,065
Profit for the year		–	–	–	–	–	36,028	36,028	(3,431)	32,597
Other comprehensive income for the year: Exchange differences on translation of foreign operations		–	–	–	–	8,170	–	8,170	(90)	8,080
Total comprehensive income for the year		–	–	–	–	8,170	36,028	44,198	(3,521)	40,677
Capital injection from non-controlling shareholders		–	–	–	–	–	–	–	365	365
At 31 March 2012		72,451	252,153*	300*	4,098*	22,869*	68,413*	420,284	(3,177)	417,107

* *These reserve accounts comprise the consolidated reserves of HK$347,833,000 (2011: HK$303,635,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**60,891**	84,126
Adjustments for:			
Dividend income from listed investments	4	**(2)**	(2)
Finance costs	6	**443**	459
Interest income	4	**(2,048)**	(110)
Fair value losses for financial assets at fair value through profit or loss	5	**39**	73
Depreciation	5	**7,679**	6,282
Recognition of prepaid land lease payments	5	**144**	138
Loss/(gain) on disposal of items of property, plant and equipment, net	5	**207**	(223)
Amortisation of intangible assets	5	**5,978**	5,407
Write-down of inventories to net realisable value	5	**448**	93
		73,779	96,243
Decrease/(increase) in inventories		**857**	(6,357)
Decrease/(increase) in trade receivables		**81,763**	(45,065)
Decrease/(increase) in prepayments, deposits and other receivables		**(9,218)**	8,649
Decrease in amounts due to related companies		**(993)**	(2,304)
Increase in amounts due to directors		**–**	46
Increase/(decrease) in trade payables		**(33,192)**	46,135
Increase in other payables and accruals		**17,246**	12,582
Increase in deferred income		**10,225**	–
Cash generated from operations		**140,467**	109,929
PRC profits tax paid		**(12,600)**	(27,275)
Net cash flows from operating activities		**127,867**	82,654
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**410**	110
Purchases of items of property, plant and equipment		**(15,221)**	(12,284)
Additions to intangible assets		**–**	(5,233)
Increase in deposits for acquisition of items of property, plant and equipment		**(1,342)**	(1,164)
Proceeds from disposal of items of property, plant and equipment		**175**	223
Purchase of financial assets at fair value through profit or loss		**(17)**	–
Dividend received from listed investments		**2**	2
Decrease in pledged time deposit		**–**	376
Increase in short term time deposits with original maturity of more than three months		**(150,791)**	–
Net cash flows used in investing activities		**(166,784)**	(17,970)

Consolidated Statement of Cash Flows (Continued)

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by non-controlling shareholders		**365**	693
Capital element of finance lease rental payments		**(201)**	(34)
Issue of shares from exercise of share options		**–**	5,200
Repayment of bank and other borrowings		**(4,090)**	(2,284)
Increase in amounts due to directors		**6,363**	–
Interest paid		**(369)**	(440)
Interest element of finance lease rental payments		**(74)**	(19)
Net cash flows from financing activities		**1,994**	3,116
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(36,923)**	67,800
Cash and cash equivalents at beginning of year		**118,232**	44,262
Effect of foreign exchange rate changes, net		**6,502**	6,170
CASH AND CASH EQUIVALENTS AT END OF YEAR		**87,811**	118,232
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**87,811**	117,856
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 and the consolidated statement of cash flows		**87,811**	118,232

Statement of Financial Position

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**31**	49
Investments in subsidiaries	*17*	**159,507**	159,507
Total non-current assets		**159,538**	159,556
CURRENT ASSETS			
Due from subsidiaries	*17*	**96,980**	105,496
Prepayments, deposits and other receivables	*20*	**181**	186
Cash and cash equivalents	*22*	**135**	132
Total current assets		**97,296**	105,814
CURRENT LIABILITIES			
Accruals	*24*	**5,100**	1,931
Due to a director	*35(b)*	**6,419**	–
Total current liabilities		**11,519**	1,931
NET CURRENT ASSETS		**85,777**	103,883
Net assets		**245,315**	263,439
EQUITY			
Issued capital	*28*	**72,451**	72,451
Reserves	*30(b)*	**172,864**	190,988
Total equity		**245,315**	263,439

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Notes to Financial Statements

31 March 2012

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 (the "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 ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2012. 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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is 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.

Notes to Financial Statements

31 March 2012

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 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HK(IFRIC) – Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC) – Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the 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) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 35 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations:* The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

Notes to Financial Statements

31 March 2012

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(b) (Continued)

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

2.3 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 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*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]
Annual Improvements Project	*Annual Improvements to HKFRSs 2009 – 2011 Cycle*[4]

[1] *Effective for annual periods beginning on or after 1 July 2011*
[2] *Effective for annual periods beginning on or after 1 January 2012*
[3] *Effective for annual periods beginning on or after 1 July 2012*
[4] *Effective for annual periods beginning on or after 1 January 2013*
[5] *Effective for annual periods beginning on or after 1 January 2014*
[6] *Effective for annual periods beginning on or after 1 January 2015*

Notes to Financial Statements

31 March 2012

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

Further information about those changes that are expected to significantly affect the Group is as follows:

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.

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 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

Notes to Financial Statements

31 March 2012

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

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. Since the Group does not have any investment property, the amendment is unlikely to have a significant impact on the financial position or results of operation of the Group.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

Notes to Financial Statements

31 March 2012

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

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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Notes to Financial Statements

31 March 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets 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 March. 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.

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.

Notes to Financial Statements

31 March 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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 is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to Financial Statements

31 March 2012

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 of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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.

Notes to Financial Statements

31 March 2012

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 net of any incentives received from the lessor 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and bank balances, trade and other receivables and quoted financial instruments.

Notes to Financial Statements

31 March 2012

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. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the 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, in rare circumstances, 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. 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 as these instruments cannot be reclassified after initial recognition.

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 finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expense for receivables.

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

Notes to Financial Statements

31 March 2012

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the 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 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 other expenses in the income statement.

Notes to Financial Statements

31 March 2012

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 plus, in the case of loans and borrowings, 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 subsequent 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 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.

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.

Notes to Financial Statements

31 March 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

Notes to Financial Statements

31 March 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

Government 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 exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

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

Notes to Financial Statements

31 March 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

Notes to Financial Statements

31 March 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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 arising on settlement or translation of monetary items 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 at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Notes to Financial Statements

31 March 2012

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 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 described 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 2012 was HK$240,000 (2011: HK$240,000). Further details are given in note 27.

Notes to Financial Statements

31 March 2012

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 2012 was HK$116,920,000 (2011: 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 the Group's 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 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.

Notes to Financial Statements
31 March 2012

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Operating segment

Year ended 31 March 2012

	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	51,165	293,093	344,258
Other revenue	532	10,124	10,656
	51,697	303,217	354,914
Segment results	1,673	78,380	80,053
Reconciliation:			
Interest income			2,048
Dividend income and other unallocated gains			2
Corporate and other unallocated expenses			(20,769)
Finance costs			(443)
Profit before tax			60,891
Segment assets	75,887	224,731	300,618
Reconciliation:			
Deferred tax assets			240
Time deposits with original maturity of more than three months			150,791
Cash and cash equivalents			87,811
Corporate and other unallocated assets			471
Total assets			539,931
Segment liabilities	24,519	53,504	78,023
Reconciliation:			
Deferred tax liabilities			11,782
Tax payable			17,918
Interest-bearing bank and other borrowings			12,762
Corporate and other unallocated liabilities			2,339
Total liabilities			122,824
Other segment information:			
Depreciation and amortisation	3,581	10,220	13,801
Capital expenditure*	1,831	13,887	15,718

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

Notes to Financial Statements

31 March 2012

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Operating segment (Continued)

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)
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.*

Notes to Financial Statements

31 March 2012

3. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information

(i) Revenue from external customers:

	2012 **HK$'000**	2011 HK$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	**328,482**	377,108
Hong Kong	**15,093**	16,199
Elsewhere in Asia	**683**	1,648
	344,258	394,955

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

(ii) Non-current assets:

	2012 **HK$'000**	2011 HK$'000
The PRC, excluding Hong Kong	**205,936**	199,660
Hong Kong	**26,320**	28,146
	232,256	227,806

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

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue for the year ended 31 March 2012.

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

Notes to Financial Statements

31 March 2012

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, net, is as follows:

	2012 HK$'000	2011 HK$'000
Revenue		
Sale of goods	**344,258**	394,955
Other income		
Franchise income	**7,240**	1,468
Dividend income from listed investments	**2**	2
Interest income	**2,048**	110
Subsidy income	**462**	307
Rental income	**164**	17
Others	**2,790**	2,216
	12,706	4,120
Gains		
Gain on disposal of items of property, plant and equipment, net	**–**	223
	12,706	4,343

Notes to Financial Statements

31 March 2012

5. PROFIT BEFORE TAX

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

	Notes	2012 HK$'000	2011 HK$'000
Cost of inventories sold		**189,247**	238,552
Depreciation	*13*	**7,679**	6,282
Recognition of prepaid land lease payments	*14*	**144**	138
Amortisation of intangible assets	*15*	**5,978**	5,407
Minimum lease payments under operating leases:			
Offices and buildings		**7,745**	7,185
Auditors' remuneration		**920**	850
Employee benefit expense (excluding directors' remuneration in note 7):			
Wages and salaries		**23,494**	19,750
Pension scheme contributions		**998**	726
		24,492	20,476
Write-down of inventories to net realisable value*		**448**	93
Foreign exchange differences, net		**78**	58
Loss/(gain) on disposal of items of property, plant and equipment, net		**207**	(223)
Fair value losses for financial assets at fair value through profit or loss		**39**	73
Subsidy income**		**(462)**	(307)

* *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.*

Notes to Financial Statements

31 March 2012

6. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on bank loans wholly repayable within five years	**369**	440
Interest on finance leases	**74**	19
	443	459

The analysis shows the finance costs of bank borrowings, including a 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 2012 and 2011, the interest on a bank loan which contains a repayment on demand clause amounted to HK$260,000 and HK$280,000, respectively.

7. DIRECTORS' REMUNERATION

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

	Group	
	2012 **HK$'000**	2011 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**252**	216
	252	216
Other emoluments:		
Salaries, allowances and benefits in kind	**3,772**	3,725
Pension scheme contributions	**48**	48
	3,820	3,773
	4,072	3,989

Notes to Financial Statements

31 March 2012

7. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2012 HK$'000	2011 HK$'000
Mr. Guo Guoqing	**78**	72
Mr. Lam Siu Hung	**78**	72
Mr. Kwok Hok Lun	**78**	72
Dr. Liu Zhonghua	**18**	–
	252	216

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors

	Salaries, allowances and benefits in kind HK$'000	**Pension scheme contributions** HK$'000	**Total remuneration** HK$'000
2012			
Executive directors:			
Dr. Chiu Ka Leung	**1,548**	**12**	**1,560**
Ms. Yeh Shu Ping	**1,364**	**12**	**1,376**
Mr. Jiao Shaoliang	**612**	**12**	**624**
Dr. Lu Pingguo	**248**	**12**	**260**
	3,772	**48**	**3,820**
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

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

Notes to Financial Statements
31 March 2012

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2011: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the three (2011: three) non-director, highest paid employees for the year are as follows:

	Group 2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	**3,057**	2,996
Pension scheme contributions	**36**	36
	3,093	3,032

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

	Number of employees 2012	2011
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	3	3

Notes to Financial Statements

31 March 2012

9. INCOME TAX EXPENSE

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 (2011: Nil). The corporate income tax provision of the Group in respect of operations in Mainland China has been calculated at 25% (2011: 25%) on the estimated assessable profits for the year based on the rate of tax prevailing in the jurisdictions in which the Group operates.

	2012	2011
	HK$'000	HK$'000
Group:		
Current – Mainland China	**26,442**	26,738
Deferred tax *(note 27)*	**1,852**	(1,391)
Total tax charge for the year	**28,294**	25,347

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 – 2012

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	**(17,548)**		**78,439**		**60,891**	
Tax at the statutory or applicable tax rate	**(2,895)**	**16.5**	**19,610**	**25.0**	**16,715**	**27.5**
Effect of withholding tax at 10% on the declared dividend of the Group's PRC subsidiary	**–**	**–**	**2,500**	**3.2**	**2,500**	**4.1**
Preferential tax rates	**–**	**–**	**(498)**	**(0.6)**	**(498)**	**(0.8)**
Expenses not deductible for tax	**27**	**(0.1)**	**2,760**	**3.5**	**2,787**	**4.6**
Tax losses not recognised	**2,841**	**(16.2)**	**2,546**	**3.3**	**5,387**	**8.8**
Tax loss utilised from previous periods	**(135)**	**0.7**	**(50)**	**(0.1)**	**(185)**	**(0.3)**
Others	**162**	**(0.9)**	**1,426**	**1.8**	**1,588**	**2.6**
Tax at the Group's effective rate	**–**	**–**	**28,294**	**36.1**	**28,294**	**46.5**

Notes to Financial Statements

31 March 2012

9. INCOME TAX EXPENSE (Continued)

Group – 2011

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

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

The consolidated profit attributable to owners of the Company for the year ended 31 March 2012 includes a loss of HK$18,124,000 (2011: HK$17,164,000) which has been dealt with in the financial statements of the Company (note 30(b)).

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$36,028,000 (2011: HK$59,477,000), and the weighted average number of ordinary shares of 1,449,010,000 (2011: 1,439,996,301) 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$36,028,000 (2011: HK$59,477,000). The weighted average number of ordinary shares used in the calculation is the 1,449,010,000 (2011: 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 346,945 (2011: 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.

12. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2012 (2011: Nil).

Notes to Financial Statements

31 March 2012

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 2012								
At 1 April 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
At 1 April 2011, net of accumulated depreciation	45,246	5,844	450	2,214	217	2,604	1,986	58,561
Additions	4,888	3,508	5,148	31	897	1,246	–	15,718
Disposal	–	(369)	(3)	–	(10)	–	–	(382)
Depreciation provided during the year	(2,681)	(2,618)	(306)	(795)	(254)	(1,025)	–	(7,679)
Exchange realignment	711	203	80	64	15	72	71	1,216
At 31 March 2012, net of accumulated depreciation	48,164	6,568	5,369	1,514	865	2,897	2,057	67,434
At 31 March 2012:								
Cost	68,116	13,732	7,792	3,725	13,784	5,441	2,057	114,647
Accumulated depreciation	(19,952)	(7,164)	(2,423)	(2,211)	(12,919)	(2,544)	–	(47,213)
Net carrying amount	48,164	6,568	5,369	1,514	865	2,897	2,057	67,434

Notes to Financial Statements

31 March 2012

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	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	46,962	2,437	324	442	136	403	–	50,704
At 1 April 2010, net of accumulated depreciation	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

* *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 and prior years.*

At 31 March 2012, the Group's land and buildings with net carrying amounts of HK$25,412,000 (2011: HK$26,617,000) and HK$22,752,000 (2011: HK$18,629,000) 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 2012 amounted to HK$25,412,000 (2011: HK$26,617,000) and HK$715,000 (2011: HK$700,000), respectively.

At 31 March 2012, certain of the Group's land and buildings with net carrying amounts of approximately HK$24,889,000 (2011: HK$26,068,000) were pledged to secure certain banking facilities granted to the Group (note 25).

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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 2012				
At 1 April 2011:				
Cost	**49**	**14**	**29**	**92**
Accumulated depreciation	**(32)**	**(4)**	**(7)**	**(43)**
Net carrying amount	**17**	**10**	**22**	**49**
At 1 April 2011, net of accumulated depreciation	**17**	**10**	**22**	**49**
Depreciation provided during the year	**(9)**	**(3)**	**(6)**	**(18)**
At 31 March 2012, net of accumulated depreciation	**8**	**7**	**16**	**31**
At 31 March 2012:				
Cost	**49**	**14**	**29**	**92**
Accumulated depreciation	**(41)**	**(7)**	**(13)**	**(61)**
Net carrying amount	**8**	**7**	**16**	**31**

Notes to Financial Statements

31 March 2012

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 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

14. PREPAID LAND LEASE PAYMENTS

	2012 HK$'000	2011 HK$'000
Carrying amount at beginning of year	**5,811**	5,683
Recognised during the year	**(144)**	(138)
Exchange realignment	**205**	266
Carrying amount at end of year	**5,872**	5,811
Current portion included in prepayments, deposits and other receivables	**(144)**	(139)
Non-current portion	**5,728**	5,672

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

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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 2012				
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
Cost at 1 April 2011, net of accumulated amortisation	2,411	12,752	29,377	44,540
Amortisation provided during the year	(547)	(1,819)	(3,612)	(5,978)
Exchange realignment	78	79	–	157
At 31 March 2012	1,942	11,012	25,765	38,719
At 31 March 2012:				
Cost	2,774	15,235	35,397	53,406
Accumulated amortisation	(832)	(4,223)	(9,632)	(14,687)
Net carrying amount	1,942	11,012	25,765	38,719

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15. INTANGIBLE ASSETS (Continued)

Group (Continued)

	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

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16. GOODWILL

Group

	HK$'000
Cost and net carrying amount at 31 March 2011 and 2012	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% (2011: 16%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2011: 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 2012. 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	
	2012	2011
	HK$'000	HK$'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.

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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 2012	2011	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

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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 2012	2011	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
雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited) (formerly known as "雲南龍潤商貿有限公司 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**	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**	70.9	Trading of tea products
長沙龍澤品牌策劃有限公司**#	The PRC/Mainland China	RMB1,000,000	**70**	–	Trading of coffee 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.

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18. INVENTORIES

	Group 2012 HK$'000	2011 HK$'000
Trading goods	**2,339**	4,259
Finished goods	**4,836**	5,965
Work in progress	**4,602**	3,070
Raw materials	**2,724**	4,350
Packaging materials	**2,086**	248
	16,587	17,892

19. TRADE RECEIVABLES

	Group 2012 HK$'000	2011 HK$'000
Trade receivables	**30,290**	112,053
Impairment	**(542)**	(542)
	29,748	111,511

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:

	2012 HK$'000	2011 HK$'000
Current (neither past due nor impaired)	**17,924**	92,699
Within 1 to 3 months overdue	**7,906**	17,165
More than 3 months overdue but less than 12 months overdue	**3,782**	1,599
Over 12 months overdue	**136**	48
	29,748	111,511

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19. TRADE RECEIVABLES (Continued)

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 April and 31 March	**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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**5,742**	3,038	**53**	–
Deposits and other receivables	**16,739**	8,582	**128**	186
	22,481	11,620	**181**	186

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 as at 31 March 2011 was an other receivable of HK$870,000 due from 雲南龍潤茶業發展有限公司 Yunnan Longrun Tea Development Company Limited ("YLRT"), which was unsecured, interest-free and repayable on demand.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**257**	279

The above equity investments at 31 March 2012 were classified as held for trading.

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22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**87,811**	117,856	**135**	132
Time deposit	**–**	376	**–**	–
Cash and cash equivalents	**87,811**	118,232	**135**	132

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$80,385,000 (2011: HK$109,989,000). 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:

	2012	2011
	HK$'000	HK$'000
Current	**1,563**	44,048
Within 1 to 3 months overdue	**10,316**	4,619
More than 3 months overdue but less than 12 months overdue	**4,266**	1,593
Over 12 months overdue	**1,327**	404
	17,472	50,664

The trade payables are non-interest-bearing.

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23. TRADE PAYABLES (Continued)

Included in the Group's trade payables are trade payables due to the following related parties:

	2012 HK$'000	2011 HK$'000
Yunnan Longrun Tea Development Company Limited ("YLRT") 雲南龍潤茶業發展有限公司	**4,278**	18,482
Yunnan Longrun Tea Group Limited ("LRTG") 雲南龍潤茶業集團有限公司	**3,282**	20,779
Fengqing Longrun Tea Company Limited ("FLRT") 鳳慶龍潤茶業有限公司	**2,514**	195
Changning Longrun Tea Company Limited ("CLRT") 昌寧縣龍潤茶業有限公司	**212**	143
Yunxian Tialong Eco-Tea Company Limited ("YTET") 雲縣天龍生態茶業有限責任公司	**–**	3,726
	10,286	43,325

YLRT, FLRT, CLRT and YTET are wholly owned subsidiaries of LRTG. LRTG is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Receipts in advance	**29,551**	19,112	**–**	–
Accruals	**10,921**	6,006	**5,100**	1,931
Other payables	**4,011**	2,119	**–**	–
	44,483	27,237	**5,100**	1,931

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

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2012			2011		
	Effective contractual interest rate (%)	**Maturity**	**HK$'000**	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loan – secured	**2.75 – 6.25**	**2013**	**6,000**	2.75	2012	6,000
Current portion of long term bank loan – secured *(Note)*	**2.5**	**2013**	**1,828**	2.5	2012	2,341
Long term bank loan repayable on demand – secured *(Note)*	**2.5**	**On demand**	**3,959**	2.5	On demand	7,599
Finance lease payable *(note 26)*	**2.5 – 4.5**	**2013**	**227**	4.5	2012	111
			12,014			16,051
Non-current						
Finance lease payable *(note 26)*	**2.5 – 4.5**	**2014 – 2015**	**748**	4.5	2013 – 2015	505
			12,762			16,556

	2012 HK$'000	2011 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand *(Note)*	**11,787**	15,940
Other borrowings repayable:		
Within one year	**227**	111
In the second year	**246**	122
In the third to fifth years, inclusive	**502**	383
	975	616
	12,762	16,556

Note: Due to the adoption of HK Interpretation 5 in the prior year, the Group's term loan of HK$5,787,000 (2011: HK$9,940,000) containing an on-demand clause has been classified 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 of HK$1,828,000 (2011: HK$2,341,000); in the second year of HK$1,874,000 (2011: HK$2,401,000) and in the third to fifth years, inclusive of HK$2,085,000 (2011: HK$5,198,000).

(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$24,889,000 (2011: HK$26,068,000) as at 31 March 2012.

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

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

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26. FINANCE LEASE PAYABLE

The Group leases certain of its motor vehicles for its manufacturing and distribution of pharmaceutical products business. These leases are classified as a finance lease and has remaining lease terms of four years.

At 31 March 2012, the total future minimum lease payments under finance leases and its present values were as follows:

Group

	Minimum lease payments 2012 HK$'000	Minimum lease payments 2011 HK$'000	**Present value of minimum lease payments 2012 HK$'000**	Present value of minimum lease payments 2011 HK$'000
Amounts payable:				
Within one year	**285**	159	**227**	111
In the second year	**285**	159	**246**	122
In the third to fifth years, inclusive	**529**	425	**502**	383
Total minimum finance lease payments	**1,099**	743	**975**	616
Future finance charges	**(124)**	(127)		
Total net finance lease payables	**975**	616		
Portion classified as current liabilities *(note 25)*	**(227)**	(111)		
Non-current portion *(note 25)*	**748**	505		

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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	Withholding tax HK$'000	Total HK$'000
At 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)
At 31 March 2011 and 1 April 2011	–	9,930	–	9,930
Deferred tax charged/(credited) to the income statement during the year *(note 9)*	–	(648)	2,500	1,852
Gross deferred tax liabilities at 31 March 2012	–	9,282	2,500	11,782

Deferred tax assets

Group	HK$'000
Gross deferred tax assets at 1 April 2010, 31 March 2011 and 31 March 2012	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**	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Tax losses	**89,623**	59,573	**37,684**	23,007
Deductible/(taxable) temporary differences	**1,228**	(18)	**–**	–
	90,851	59,555	**37,684**	23,007

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

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27. DEFERRED TAX (Continued)

Withholding tax liability

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 2012, the withholding tax liability of HK$2,500,000 is related to the withholding tax arising from the dividend declared by the Group's PRC subsidiary subsequent to the end of the reporting period. No deferred tax has been recognised for withholding taxes that would be payable on the remaining 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$153,957,000 at 31 March 2012 (2011: HK$114,644,000).

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

28. SHARE CAPITAL

	2012 HK$'000	2011 HK$'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 (2011: 1,449,010,000) ordinary shares of HK$0.05 each	**72,451**	72,451

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28. SHARE CAPITAL (Continued)

The movements in share capital in the prior year were as follows:

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 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 and 2012	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 29 to the financial statements.

29. 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 of the Company. 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.

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29. EQUITY COMPENSATION PLANS (Continued)

(a) Share Option Scheme (Continued)

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.

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:

	2012		2011	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 April and at 31 March	**0.375**	**1,290,000**	0.375	1,290,000

No share options were exercised during the current and prior years.

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

2012 and 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		

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29. 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 fulfilment 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 following share options were outstanding under the option agreements during the year:

	2012		2011	
	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**	**4,000,000**	0.4	17,000,000
Exercised during the year		**–**	0.4	(13,000,000)
At the end of year	**0.4**	**4,000,000**	0.4	4,000,000

No share options were exercised during the current year.

During the prior 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 28 to the financial statements.

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31 March 2012

29. EQUITY COMPENSATION PLANS (Continued)

(b) Option agreements (Continued)

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

2012 and 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		

* *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.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 34 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.

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30. RESERVES (Continued)

(b) Company

	Note	**Share premium account** HK$'000	**Contributed surplus** HK$'000	**Employee share-based compensation reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 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	*28*	16,773	–	(12,223)	–	4,550
At 31 March 2011 and 1 April 2011		252,153	46,999	4,098	(112,262)	190,988
Total comprehensive loss for the year		–	–	–	(18,124)	(18,124)
At 31 March 2012		252,153	46,999	4,098	(130,386)	172,864

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

31. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

During the 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$497,000 (2011: HK$650,000).

32. CONTINGENT LIABILITY

As at 31 March 2012, the Company provided a guarantee given to a bank in connection with the banking facilities of HK$6,000,000 (2011: HK$6,000,000) granted to the Company's subsidiary.

Notes to Financial Statements

31 March 2012

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 March 2012, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**10**	12

(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 twenty years.

At 31 March 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Within one year	**8,732**	5,438	**436**	–
In the second to fifth years, inclusive	**35,953**	11,322	**–**	–
After five years	**50,725**	839	**–**	–
	95,410	17,599	**436**	–

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at the end of the reporting period.

	2012 HK$'000	2011 HK$'000
Contracted, but not provided for:		
Leasehold improvements	**13,108**	1,253

Notes to Financial Statements

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35. 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:

	Notes	**2012 HK$'000**	2011 HK$'000
Purchases of tea products from:			
CLRT	*(ii), (iii)*	**44,917**	27,251
FLRT	*(ii), (iii)*	**29,541**	28,978
YTET	*(ii), (iii)*	**11,411**	23,007
YLRT	*(ii), (iii)*	**8,292**	45,907
YRTG	*(ii), (iii)*	**62,154**	89,262
		156,315	214,405
Loan borrowed from YRTG	*(iv)*	**3,161**	–

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.

(iv) The loan is unsecured, interest-free and has been repaid during the year.

The above transactions in respect of purchases of tea products entered into by the Group during the year ended 31 March 2012 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.

Notes to Financial Statements

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35. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

	2012 HK$'000	2011 HK$'000
Short term employee benefits	**10,294**	9,720
Post-employment benefits	**155**	143
	10,449	9,863

36. 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 2011 and 2012 are loans and receivables and financial liabilities stated at amortised cost, respectively.

37. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's and the Company's financial instruments as at 31 March 2012 and 2011 are approximate to their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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)

Notes to Financial Statements

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37. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

As at 31 March 2012, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 March 2012 and 2011:

31 March 2012	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Equity investments at fair value through profit or loss	**257**	**–**	**–**	**257**

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

During the years ended 31 March 2012 and 2011, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

38. 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.

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 44.2% (2011: 52.8%) 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.

Notes to Financial Statements

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

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

Group

		2012	
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**6,312**	**813**	**7,125**
Term loan subject to a repayment on demand clause *(Note)*	**6,018**	**–**	**6,018**
Trade payables	**17,472**	**–**	**17,472**
Other payables and accruals	**14,932**	**–**	**14,932**
Due to related companies	**818**	**–**	**818**
Due to directors	**7,364**	**–**	**7,364**
	52,916	**813**	**53,729**

		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 and accruals	8,125	–	8,125
Due to related companies	1,811	–	1,811
Due to directors	1,001	–	1,001
	78,241	584	78,825

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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$5,787,000 (2011: HK$9,940,000) at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding 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 2012 are HK$1,952,000 in 2013, HK$1,952,000 in 2014, HK$1,952,000 in 2015 and HK$162,000 in 2016. 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.

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 the shareholders' 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 2012 and 2011.

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 periods were as follows:

Group

	2012 HK$'000	2011 HK$'000
Total liabilities	**122,824**	111,326
Total equity	**417,107**	376,065
Gearing ratio	**29.4%**	29.6%

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 June 2012.