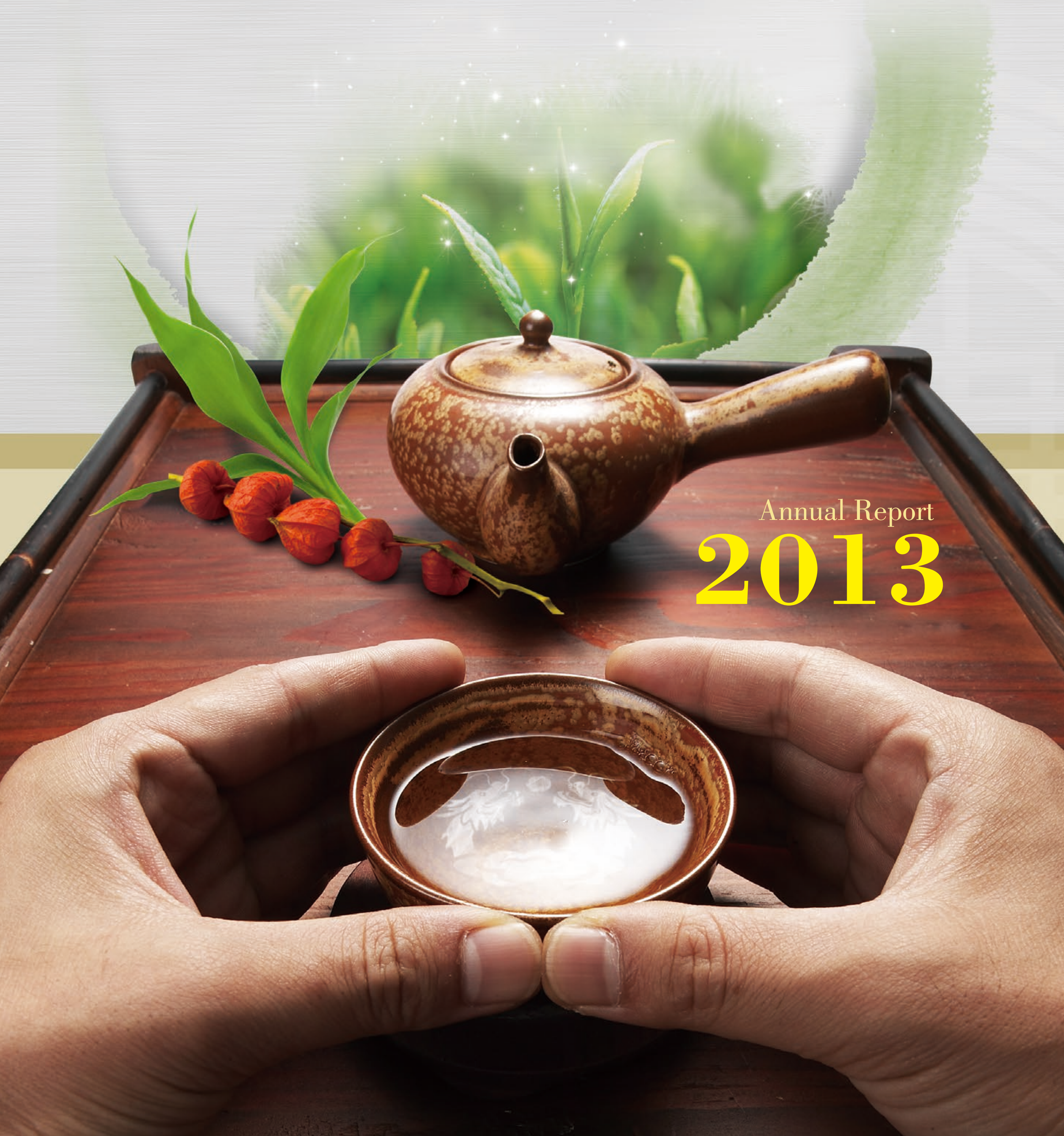
龍潤 LongRun

LONGRUN TEA GROUP COMPANY LIMITED

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



Annual Report 2013

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Corporate Information

BOARD OF DIRECTORS

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

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

Room 3007A-B,
Cable TV Tower,
9 Hoi Shing Road, Tsuen Wan,
New Territories, 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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town,
Grand Cayman KY1-1110,
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 present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2013.

Over the year, major challenges to the global economy persisted; in addition, the slowing down of economic growth in The People's Republic of China ("PRC" or "China") and increases in operating costs continued to exert a negative impact on the PRC retail markets. Decline in consumption together with inflationary operating costs further dampened the results of the Group.

In order to maintain the efficiency of the Group in the tough operating environment, we disposed of the loss-making trendy teahouse business. The management of the Company will redeploy resources to focus on the development of our network of traditional tea shops and mega retail outlets. Besides, we have been aggressively seeking more opportunities with an aim to explore a new distribution platform that can complement our existing distribution network.

2013 was a year of recognition for the Group, despite the Group's unsatisfactory results. We were awarded the "Chinese Tea Industry Top Ten Leading (Recommended) Enterprises" by The International Tea Convention 2013 and "China's Top 10 Pu'er Tea Brands" by Yunnan Province Pu'er Tea Association. We were also ranked the first of China's Top 10 Pu'er Tea Brands, which is an honour conferred by the tea industry for our persistence in providing high quality tea and our efforts in building the brand "Longrun Tea"（龍潤茶）. The Group will continue to provide high quality tea to customers.

Going forward, the Group will leverage the high level of recognition and popularity of the "Longrun Tea"（龍潤茶）brand to prudently expand its sales network of traditional tea shops, despite the challenging operating environment. Together with the implementation of cost effective strategies, the Group remains cautiously optimistic in the year ahead.

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 our gratitude to all business partners for their valuable inputs, and all shareholders and customers for their trust and support. With our dedicated and experienced management team working in close collaboration and growing with the Group, I am confident that the Group will be able to capture every opportunity in the coming year and beyond.

Chiu Ka Leung
Chairman

Hong Kong, 21 June 2013

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 March 2013, the revenue of the Group decreased by approximately 21% to approximately HK$271,215,000 (2012: HK$344,258,000). The gross profit of the Group decreased by approximately 25% to approximately HK$115,715,000 (2012: HK$154,288,000).

Profit for the year was approximately HK$922,000 (2012: HK$32,597,000), down approximately 97% year-on-year. Profit attributable to owners of the Company amounted to approximately HK$6,397,000 (2012: HK$36,028,000), down approximately 82% year-on-year. The decrease in profit was mainly attributable to (1) the increase in operating costs, in particular, the increase in selling and marketing expenses for business development of the Group's traditional tea business and (2) the decrease in sales due to the continued downturn of the domestic economy of the PRC. Basic earnings per share were HK0.44 cent for the year under review (2012: HK2.49 cents).

BUSINESS REVIEW

Tea and Other Food Products Businesses

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.

Revenue for the year from tea and other food products businesses was approximately HK$216,806,000 (2012: HK$293,093,000), accounting for approximately 80% (2012: 85%) of the Group's total revenue. The decrease in revenue was mainly attributable to the continued downturn of the domestic economy of the PRC.

Tea Shops

As at 31 March 2013, we managed a network comprising a total of over 200 self-owned and franchised tea shops across Mainland China and Hong Kong. Our traditional and convenient tea products, i.e. tea cakes, loose tea leaves, tea gift sets, convenient tea-cups, instant tea essence and tea bags, etc., are sold in these shops. During the year under review, we have launched over 20 franchised convenient tea shops in Yunnan, Shandong Provinces and Tianjin Municipality. Most of them are closely located to business centers and office buildings, and primarily sell and distribute convenient tea products for office use, such as convenient tea-cups, instant tea essence and tea bags.

Mega Retail Outlet Targeting Tourists

Other than the traditional tea shops targeting the commercial market, the Group also focuses on the tourists market. Mega retail outlets are opened for targeting both domestic and international tourists travelling to Yunnan Province. The Group now operates three Mega Retail Outlets in Kunming, Yunnan Province with a gross total area over 45,000 square feet.

Location of Mega Retail Outlet	Highlight
Kunming International Convention & Exhibition Centre（昆明國際會展中心）	A place for international exhibitions and fairs
World Horticultural Expo Garden（昆明世界園藝博覽園）	A must-go tourist attraction in Kunming
Yunnan Nationalities Village（昆明民族村）	25 ethnic minorities living in Yunnan Province

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

Management Discussion and Analysis

Award and Accreditation

In January 2012, an Organic Certification was granted by The Institute for Marketecology[1] (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 (1) organic agricultural production and (2) 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.

In 2013, "Longrun"（龍潤）tea products ranked the first of Top 10 Pu'er Tea Brands（普洱茶十大品牌）by The International Tea Convention 2013.

Disposal of Trendy Teahouse (茶物語 – Tea Story)

On 25 January 2013, 雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited*) ("Yunnan Longrun Tea", a wholly-owned subsidiary of the Company) and 雲南龍潤餐飲有限公司 (Yunnan Longrun F&B Company Limited*) ("Yunnan Longrun F&B", a 70.9% subsidiary of Yunnan Longrun Tea) entered into a sale and purchase agreement with Dr. Chiu Ka Leung, the controlling shareholder and an executive director of the Company, in respect of Yunnan Longrun Tea's disposal of 70.9% equity interest in Yunnan Longrun F&B to Dr. Chiu Ka Leung at a total consideration of HK$500,000. Yunnan Longrun F&B and its subsidiaries operate trendy teahouses in the PRC.

The transaction was completed in January 2013 and the total consideration of HK$500,000 was received subsequently and a gain of approximately HK$14,925,000 was recognised.

Healthcare and Pharmaceutical Business

During the year under review, the business and operations of the Group's healthcare and pharmaceutical products business continued to make a steady contribution. Revenue from this division was approximately HK$54,409,000 (2012: HK$51,165,000), accounting for about 20% (2012: 15%) of the Group's total revenue. "Beauty and Healthy"（排毒美顏寶）remained as the Group's major revenue contributor in this segment, accounting for 4% (2012: 4%) of the total revenue during the year.

PROSPECTS

In 2012, the mounting uncertainties in global economies continued to affect consumer markets in many of the countries around the globe. The domestic economy of the PRC also suffered a continuous downturn and the growth of China's GDP continued to hit new lows in recent years, the management believes the PRC economy will continue to face challenging and slower growth and China's operating environment continue to be very tough and challenging in the coming years.

For the first half of the financial year ended 31 March 2013, due to the weaken economy and rising operating costs in the PRC, the Group recorded a loss of approximately HK$7,637,000. Since then, management implemented plans to optimise its operating structure including the disposal of the trendy teahouse operation. For the year ended 31 March 2013, the Group recorded a profit of approximately HK$922,000.

Looking ahead, the management remains cautiously optimistic with respect to the overall consumer market sentiment in China. The Group will continue to focus on its traditional tea distribution business by leveraging on the high level of recognition and popularity of the "Longrun"（龍潤）brand. The Group will continue to optimise its operation efficiency and to implement strategies to maintain the Group's profitability in the coming years.

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

* *For identification purpose only*

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2013, the Group had current assets of HK$338,093,000 (2012: HK$307,675,000) and cash and bank balances of HK$134,382,000 (2012: HK$87,811,000). The Group's current liabilities as at 31 March 2013 were HK$122,467,000 (2012: HK$100,069,000).

As at 31 March 2013, total equity was HK$430,071,000 (2012: HK$417,107,000). The Group had interest-bearing bank and other borrowings of HK$12,307,000 as at 31 March 2013 (2012: HK$12,762,000). The gearing ratio as at 31 March 2013, being the ratio of total liabilities to total equity, was 30% (2012: 29%).

EMPLOYEES

As at 31 March 2013, the Group had 792 employees (2012: 551 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 LIABILITY

As at 31 March 2013, the Company provided a guarantee to a bank in connection with the banking facilities of HK$11,623,000 (2012: HK$6,000,000) granted to a subsidiary of the Company.

EXPOSURES TO EXCHANGE RATE FLUCTUATION

As the Group carries out its operations in China and Hong Kong, and substantially all of its related business transactions, assets are denominated in Renminbi and Hong Kong dollars, and the liabilities of the Group are denominated in Renminbi and Hong Kong dollars, the foreign exchange risk of the Group was considered minimal.

PLEDGE OF THE GROUP'S ASSETS

As at 31 March 2013, the Group's leasehold land and buildings with an aggregate net book value of approximately HK$24,459,000 (2012: HK$24,889,000) 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 49, 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 66, 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 had 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 39, 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 of the Board 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 41, 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 of the Board 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 54, 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 and Investment Institute (formerly known as "Hong Kong Securities Institute"). Mr. Lam has over 20 years' experience in accounting, auditing, taxation and corporate finance.

Mr. Guo Guoqing, aged 50, 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行銷研究中心 (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 37, 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 48, 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).

Senior Management

Mr. Han Ping, Joseph, aged 43, 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 44, 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 44, 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 recognises the importance of good corporate governance in maintaining its corporate transparency and accountability. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

The Company has applied the principles as set out in the Corporate Governance Code (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").

The Board considers that during the year ended 31 March 2013, the Company has applied the principles and complied with the code provisions set out in the CG Code, except for the code provisions A.6.7 and E.1.2. Key corporate governance principles and practices of the Company as well as the details of the foregoing deviations are summarised 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, take decisions objectively and act in the interests of the Company and its shareholders at all times.

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

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

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

A2. Board Composition

The composition of the Board as at 31 March 2013 is as follows:

Executive directors:

Dr. Chiu Ka Leung	*(Chairman of the Board, Chairman of the Nomination Committee, Member of both the Remuneration Committee and the Executive 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)*

Throughout the year ended 31 March 2013, the Board has met the requirements of the Listing Rules 3.10 and 3.10A of having a minimum of three independent non-executive directors (representing at least one-third of the Board) with one of them possessing appropriate professional qualifications and accounting and related financial management expertise.

The members of the Board have skills and experience appropriate for the business requirements and objectives of the Group. Each executive director is responsible for different business and functional division of the Group 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, the independent non-executive directors had 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 Board members, 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 light of the independence guidelines set out in the Listing Rules.

A3. Chairman and Chief Executive

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.

Corporate Governance Report

A4. Appointment and Re-election of Directors

All directors of the Company are appointed for a specific term, subject to renewal upon expiry of the existing 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.

According to the Company's Articles of Association (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.

At the forthcoming annual general meeting of the Company (the "2013 AGM"), Dr. Chiu Ka Leung, Ms. Yeh Shu Ping and Mr. Guo Guoqing shall retire by rotation pursuant to the Articles provisions stated in the foregoing paragraph. All the above three retiring directors, being eligible, will offer themselves for re-election at the 2013 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 three directors as required by the Listing Rules.

A5. Training and Continuing Development for Directors

Each newly appointed director shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully 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 are arranged whenever necessary. In addition, reading material on new or changes to salient laws and regulations applicable to the Group are provided to directors from time to time for their studying and reference.

During the year ended 31 March 2013, the directors complied with the code provision A.6.5 of the CG Code on participation in continuous professional training as follows:

– All directors (being Dr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. Lu Pingguo, Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua) received regular briefings and updates from the Company Secretary on the Group's business, operations and corporate governance matters.

– Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. Lu Pingguo, Mr. Lam Siu Hung and Mr. Kwok Hok Lun attended seminars, which are relevant to their duties and responsibilities, organised by professional firms/institutions.

A6. Directors' Attendance Records

The attendance records of each director at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 March 2013 are set out below:

	Attendance/Number of Meetings					
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**	**Extraordinary General Meeting**
Executive directors:						
Dr. Chiu Ka Leung	7/7	N/A	1/1	1/1	0/1	0/1
Ms. Yeh Shu Ping	7/7	N/A	1/1	N/A	0/1	0/1
Mr. Jiao Shaoliang	6/7	N/A	N/A	N/A	0/1	0/1
Dr. Lu Pingguo	7/7	N/A	N/A	N/A	1/1	1/1
Independent non-executive directors:						
Mr. Lam Siu Hung	6/7	2/2	1/1	1/1	1/1	0/1
Mr. Guo Guoqing	1/7	0/2	0/1	0/1	0/1	0/1
Mr. Kwok Hok Lun	5/7	2/2	1/1	1/1	0/1	0/1
Dr. Liu Zhonghua	0/7	N/A	0/1	0/1	0/1	0/1

In addition, the Chairman of the Board held a meeting with the independent non-executive directors without the presence of executive directors during the year under review.

A7. 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. Each director has been given a copy of the Model Code. Specific enquiry has been made of all the Company's directors and they have confirmed their compliance with the Model Code throughout the year ended 31 March 2013.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines"), governing securities transactions by employees who are likely to possess inside 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.

A8. Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the CG Code.

The Board has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Corporate Governance Report

B. BOARD COMMITTEES

The Company has four Board committees, namely, the Executive Committee, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference which are available on the Stock Exchange's website (www.hkexnews.hk) and on the Company's website (except for the written terms of reference of the Executive Committee which are available to shareholders upon request). All the Board committees should report to the Board on their decisions or recommendations made.

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

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 this Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decisions. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Company.

B2. Remuneration Committee

The Remuneration Committee comprises a total of 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 chairman of the Remuneration Committee is Mr. Lam Siu Hung.

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 (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code is adopted). The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

During the year ended 31 March 2013, the Remuneration Committee has held 1 meeting (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

- 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.

B2. Remuneration Committee (Continued)

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 March 2013 is set out below:

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

Details of the remuneration of each director of the Company for the year ended 31 March 2013 are set out in note 7 to the financial statements contained in this annual report.

B3. Nomination Committee

The Nomination Committee comprises a total of five members, being the Chairman of the Board, namely Dr. Chiu Ka Leung, and the 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 of the Company.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

During the year ended 31 March 2013, the Nomination Committee has held 1 meeting (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

– 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 17 August 2012 (the "2012 AGM"); and

– Assessment of the independence of all the Company's independent non-executive directors.

Corporate Governance Report

B4. Audit Committee

The Audit Committee comprises a total of three members, being 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 professional qualification, and 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 2013, the Audit Committee has held 2 meetings (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

– Review and discussion of the annual financial statements, results announcement and report for the year ended 31 March 2012, the related accounting principles and practices adopted by the Group and the relevant audit findings, the report from the management on the Company's internal control and risk management review and processes; 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 2012 and the related accounting principles and practices adopted by the Group.

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

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

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

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 March 2013.

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 shareholders and the Group's assets and for reviewing the effectiveness of such system on an annual basis. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis and reports to the Audit Committee and the Board on any findings and measures to address the variances and identified risks.

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

E. COMPANY SECRETARY

The Company Secretary of the Company is Mr. Hui Pang To, who fulfils the qualification requirements laid down in the Listing Rules. Biographical details of Mr. Hui are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. During the year ended 31 March 2013, Mr. Hui has taken not less than 15 hours of relevant professional training.

F. 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 2013 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 2013 are analysed below:

Type of services provided by the external auditors	**Fees paid/payable** HK$
Audit services	
– audit fee for the year ended 31 March 2013	980,000
Non-audit services	
– interim review for the six months ended 30 September 2012	265,000
TOTAL:	1,245,000

Corporate Governance Report

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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 Group also recognises the importance of transparent and timely disclosure of corporate information, which enables shareholders and investors to make the best investment decision.

The Company maintains a website at www.longruntea.com as a communication platform with shareholders and investors, where information and updates on the Company's business developments and operations and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company as follows:

Address:	Unit 2201, 22/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong/ Room 3007A-B, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong
Fax number:	(852) 3904 3464/(852) 2955 1887
Email:	ird@longruntea.com

Inquiries are dealt with in an informative and timely manner.

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

Code provision E.1.2 of the CG Code stipulates that the chairman of 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 2012 AGM due to 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 arranged to answer questions from the shareholders at that meeting. No question was raised by any shareholders during such general meeting.

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua were unable to attend the 2012 AGM and the extraordinary general meeting of the Company held on 5 April 2013 (the "EGM"), and Mr. Lam Siu Hung was unable to attend the EGM due to their other business engagement.

H. SHAREHOLDERS' RIGHTS

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. The Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings as follows:

(1) Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company may request the Board to convene an extraordinary general meeting pursuant to Article 58 of the Articles by sending a written requisition to the Board or the Company Secretary at the Company's principal place of business in Hong Kong. The objects of the meeting must be stated in the written requisition.

(2) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, pursuant to Article 88 of the Articles, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's principal place of business in Hong Kong, or the office of the Company's branch share registrar. The period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholder(s) must provide their full name, contact details and identification, in the originally signed written requisition, notice or statement (as the case may be), in order to give effect thereto. Information of shareholder(s) may be disclosed as required by law.

During the year under review, the Company has not made any significant changes to the Articles. An up-to-date version of the Articles is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles for further details of the rights of shareholders.

All resolutions put forward at shareholders' meetings of listed issuers shall be voted by poll pursuant to the Listing Rules. The poll voting results shall be posted on the websites of the Stock Exchange 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 2013.

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 2013 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 31 to 99.

The directors of the Company do not recommend the payment of any dividend in respect of the year (2012: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 100. This summary does not form part of the audited financial statements of the Group for the year ended 31 March 2013.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 March 2013, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$155,374,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$597,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 45% of the total sales for the year and sales to the largest customer included therein amounted to approximately 10%. Purchases from the Group's five largest suppliers accounted for approximately 71% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 26%.

Dr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 52.69% in the Company's share capital, had beneficial interests in four of the five largest suppliers which accounted for approximately 64% of the total purchases of the Group.

Mr. Jiao Shaoliang, a director of the Company, had beneficial interests in four of the five largest suppliers which accounted for approximately 64% of the total purchases of the Group.

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report 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

In accordance with Article 87 of the Articles, Dr. Chiu Ka Leung, Ms. Yeh Shu Ping and Mr. Guo Guoqing, 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 2013 AGM. The above retiring directors, being eligible, will offer themselves for re-election at the 2013 AGM.

Report of the Directors

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 2013, except Dr. Lu Pingguo whose service contract commenced on 1 February 2013, 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 2013 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 37 to the financial statements headed "Related party transactions", no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

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

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

As at 31 March 2013, the interests/short positions held by the directors and chief executive 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	52.69%
Ms. Yeh Shu Ping	Beneficial owner	43,895,500	3.02%
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	0.07%
Dr. Lu Pingguo	Beneficial owner	16,630,000	1.14%

(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%

Note: Details of the above share options granted by the Company are set out in note 30 to the financial statements and 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	109,523,810	7.55%

+ *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 2013.*

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", as at 31 March 2013, none of the directors or chief executive of the Company had registered an interest or short position in the shares, 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 note 30 to the financial statements and 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 2013, the following persons/corporations had interests/short positions of 5% or more of the issued shares of the Company according to in 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 1)*	763,864,500	52.69%
Chen Fang	Beneficial owner	110,000,000	7.58%
徐永鋒	Beneficial owner	100,000,000	6.89%

(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	Interest held by spouse *(Note 1)*	109,523,810	7.55%

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

(C) Long 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
China Construction Bank Corporation	Interest of controlled corporations *(Note 2)*	109,523,810	7.55%
Central Huijin Investment Ltd	Interest of controlled corporations *(Note 2)*	109,523,810	7.55%

Notes:

1. 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 has been disclosed in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above.

2. These shares were held by CCBI Cement Private Equity Limited, a wholly-owned subsidiary of CCBI Investments Limited, which in turn was a wholly-owned subsidiary of CCB International (Holdings) Limited. CCB International (Holdings) Limited was a wholly-owned subsidiary of CCB Financial Holdings Limited, which in turn was a wholly-owned subsidiary of CCB International Group Holdings Limited. CCB International Group Holdings Limited was a wholly-owned subsidiary of China Construction Bank Corporation, which in turn was owned as to 57.15% by Central Huijin Investment Ltd.

   Accordingly, China Construction Bank Corporation and Central Huijin Investment Ltd were deemed to be interested in these underlying shares held by CCBI Cement Private Equity Limited pursuant to the SFO.

+ *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 2013.*

Save as disclosed above, as at 31 March 2013, no person, other than the directors and chief executive 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.

SUFFICIENCY OF 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.

Report of the Directors

SHARE OPTIONS

(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 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. On 17 August 2012, the Company passed a resolution at the 2012 AGM for the adoption of a new Scheme (the "2012 Share Option Scheme") as the Scheme adopted in 2002 (the "2002 Share Option Scheme") expired on 4 September 2012. The 2012 Share Option Scheme became effective on 17 August 2012 and, unless otherwise cancelled or amended, would remain in force for 10 years from that date. No share options were granted under the 2012 Share Option Scheme since its adoption.

Details of movements of the share options granted under the 2002 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 2012	Granted during the year	Exercised during the year *(Note 1)*	Lapsed during the year	Cancelled during the year	Outstanding as at 31 March 2013	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 2 below	HK$0.375
Employees working under continuous contracts – in aggregate	960,000	–	(180,000)	(780,000)	–	–	9.9.2002	See note 2 below	HK$0.375
Total	1,290,000	–	(510,000)	(780,000)	–	–			

Notes:

1. The weighted average closing price of shares immediately before the date on which the options were exercised was HK$0.435.

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

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

SHARE OPTIONS (Continued)

(B) Option agreements

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

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

	Number of share options							
Name or category of option holder	Outstanding as at 1 April 2012	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 March 2013	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 TRANSACTIONS

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))("Yunnan Longrun Tea", 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, Yunnan Longrun Tea 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 Yunnan Longrun Tea. Yunnan Longrun Tea, 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, Yunnan Longrun Tea is able to secure supply of high quality pu'er tea products at favourable purchase terms.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS (Continued)

The purchase price of the Tea Products payable by Yunnan Longrun Tea 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 Yunnan Longrun Tea 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 Yunnan Longrun Tea 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 the financial year ended 31 March 2013 was HK$370,000,000. At the Company's extraordinary general meeting held on 5 April 2013, the independent shareholders of the Company approved the said maximum amount of purchase of Tea Products for the three financial years ending 31 March 2016 amounting to HK$150,000,000, HK$170,000,000 and HK$190,000,000 respectively. For the year ended 31 March 2013, the amount of fees paid to Longrun Tea Group under the Transaction amounted to HK$103,617,000, which was within the above maximum amount of HK$370,000,000.

The independent non-executive directors of the Company have reviewed the Transaction for the year ended 31 March 2013 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.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (Continued)

As at 31 March 2013, 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 Monday, 26 August 2013 to Wednesday, 28 August 2013 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the 2013 AGM to be held on 28 August 2013, 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 Friday, 23 August 2013.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the 2013 AGM.

ON BEHALF OF THE BOARD

Chiu Ka Leung
Chairman

Hong Kong
21 June 2013

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 31 to 99, which comprise the consolidated and company statements of financial position as at 31 March 2013, 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)

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

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 2013, 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
22/F., CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
21 June 2013

Consolidated Income Statement

Year ended 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
REVENUE	4	**271,215**	344,258
Cost of sales		**(155,500)**	(189,970)
Gross profit		**115,715**	154,288
Other income and gains	4	**20,111**	12,706
Gain on disposal of subsidiaries	32	**14,925**	–
Selling and distribution expenses		**(91,904)**	(58,724)
Administrative expenses		**(46,369)**	(40,868)
Amortisation of intangible assets	15	**(5,713)**	(5,978)
Other expenses		**(153)**	(90)
Finance costs	6	**(467)**	(443)
PROFIT BEFORE TAX	5	**6,145**	60,891
Income tax expense	9	**(5,223)**	(28,294)
PROFIT FOR THE YEAR		**922**	32,597
Attributable to:			
Owners of the Company	10	**6,397**	36,028
Non-controlling interests		**(5,475)**	(3,431)
		922	32,597
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	12		
Basic		**HK0.44 cent**	HK2.49 cents
Diluted		**HK0.44 cent**	HK2.49 cents

Details of the dividends are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 March 2013

	2013 HK$'000	2012 HK$'000
PROFIT FOR THE YEAR	**922**	32,597
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**3,330**	8,080
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**3,330**	8,080
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,252**	40,677
Attributable to:		
Owners of the Company	**9,596**	44,198
Non-controlling interests	**(5,344)**	(3,521)
	4,252	40,677

Consolidated Statement of Financial Position

31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**70,224**	67,434
Prepaid land lease payments	14	**5,617**	5,728
Deposits for acquisition of items of property, plant and equipment		**–**	3,215
Intangible assets	15	**29,952**	38,719
Goodwill	16	**116,920**	116,920
Deferred tax assets	28	**240**	240
Total non-current assets		**222,953**	232,256
CURRENT ASSETS			
Properties classified as held for sale	18	**24,459**	–
Inventories	19	**25,837**	16,587
Trade receivables	20	**37,556**	29,748
Prepayments, deposits and other receivables	21	**19,221**	22,481
Financial assets at fair value through profit or loss	22	**333**	257
Time deposits with original maturity of more than three months		**96,305**	150,791
Cash and cash equivalents	23	**134,382**	87,811
Total current assets		**338,093**	307,675
CURRENT LIABILITIES			
Trade payables	24	**25,812**	17,472
Other payables and accruals	25	**57,599**	44,483
Interest-bearing bank and other borrowings	26	**11,868**	12,014
Due to related companies	37(c)	**3,607**	818
Due to directors	37(c)	**16,541**	7,364
Tax payable		**7,040**	17,918
Total current liabilities		**122,467**	100,069
NET CURRENT ASSETS		**215,626**	207,606
TOTAL ASSETS LESS CURRENT LIABILITIES		**438,579**	439,862
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**439**	748
Deferred income		**–**	10,225
Deferred tax liabilities	28	**8,069**	11,782
Total non-current liabilities		**8,508**	22,755
Net assets		**430,071**	417,107

Consolidated Statement of Financial Position (Continued)

31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*29*	**72,476**	72,451
Reserves	*31(a)*	**357,595**	347,833
		430,071	420,284
Non-controlling interests		–	(3,177)
Total equity		**430,071**	417,107

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2013

		Attributable to owners of the Company								
	Notes	**Issued capital** HK$'000	**Share premium account** HK$'000	**Contributed surplus** HK$'000 *(note 31(a))*	**Employee share-based compensation reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 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 and 1 April 2012		**72,451**	**252,153***	**300***	**4,098***	**22,869***	**68,413***	**420,284**	**(3,177)**	**417,107**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**6,397**	**6,397**	**(5,475)**	**922**
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**3,199**	**–**	**3,199**	**131**	**3,330**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**3,199**	**6,397**	**9,596**	**(5,344)**	**4,252**
Exercise of share options	*29*	**25**	**166**	**–**	**–**	**–**	**–**	**191**	**–**	**191**
Disposal of subsidiaries	*32*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,521**	**8,521**
At 31 March 2013		**72,476**	**252,319***	**300***	**4,098***	**26,068***	**74,810***	**430,071**	**–**	**430,071**

* *These reserve accounts comprise the consolidated reserves of HK$357,595,000 (2012: HK$347,833,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,145**	60,891
Adjustments for:			
Dividend income from listed investments	4	**(4)**	(2)
Gain on disposal of subsidiaries	32	**(14,925)**	–
Finance costs	6	**467**	443
Interest income	4	**(6,859)**	(2,048)
Fair value (gains)/losses for financial assets at fair value through profit or loss	5	**(76)**	39
Depreciation	5	**11,512**	7,679
Recognition of prepaid land lease payments	5	**166**	144
Loss on disposal of items of property, plant and equipment, net	5	**26**	207
Amortisation of intangible assets	5	**5,713**	5,978
Impairment of trade receivables	5	**737**	–
Reserval of impairment of trade receivables	5	**(114)**	–
(Write-back)/write-down of provision of inventories to net realisable value	5	**(582)**	448
		2,206	73,779
Decrease/(increase) in inventories		**(9,303)**	857
Decrease/(increase) in trade receivables		**(8,562)**	81,763
Decrease/(increase) in prepayments, deposits and other receivables		**906**	(9,218)
Increase/(decrease) in amounts due to related companies		**2,803**	(993)
Increase/(decrease) in trade payables		**8,384**	(33,192)
Increase in other payables and accruals		**29,032**	17,246
Increase in deferred income		**6,860**	10,225
Cash generated from operations		**32,326**	140,467
PRC profits tax paid		**(19,822)**	(12,600)
Net cash flows from operating activities		**12,504**	127,867
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**3,338**	410
Purchases of items of property, plant and equipment		**(43,960)**	(15,221)
Decrease/(increase) in deposits for acquisition of items of property, plant and equipment		**3,215**	(1,342)
Proceeds from disposal of items of property, plant and equipment		**6**	175
Deposits received from sale of property		**9,356**	–
Purchase of financial assets at fair value through profit or loss		**–**	(17)
Dividend received from listed investments		**4**	2
Disposal of subsidiaries	32	**(3,166)**	–
Decrease/(increase) in short term time deposits with original maturity of more than three months		**54,486**	(150,791)
Net cash flows generated from/(used in) investing activities		**23,279**	(166,784)

Consolidated Statement of Cash Flows (Continued)

Year ended 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by non-controlling shareholders		–	365
Capital element of finance lease rental payments		–	(201)
Issue of shares from exercise of share options		191	–
Inception of bank and other borrowings		12,000	–
Repayment of bank and other borrowings		(12,455)	(4,090)
Increase in amounts due to directors		9,177	6,363
Interest paid		(409)	(369)
Interest element of finance lease rental payments		(58)	(74)
Net cash flows from financing activities		8,446	1,994
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		44,229	(36,923)
Cash and cash equivalents at beginning of year		87,811	118,232
Effect of foreign exchange rate changes, net		2,342	6,502
CASH AND CASH EQUIVALENTS AT END OF YEAR		134,382	87,811
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	134,382	87,811
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		134,382	87,811

Statement of Financial Position

31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**14**	31
Investments in subsidiaries	*17*	**159,507**	159,507
Total non-current assets		**159,521**	159,538
CURRENT ASSETS			
Due from subsidiaries	*17*	**95,914**	96,980
Prepayments, deposits and other receivables	*21*	**133**	181
Cash and cash equivalents	*23*	**135**	135
Total current assets		**96,182**	97,296
CURRENT LIABILITIES			
Accruals	*25*	**8,980**	5,100
Due to a director	*37(c)*	**14,775**	6,419
Total current liabilities		**23,755**	11,519
NET CURRENT ASSETS		**72,427**	85,777
Net assets		**231,948**	245,315
EQUITY			
Issued capital	*29*	**72,476**	72,451
Reserves	*31(b)*	**159,472**	172,864
Total equity		**231,948**	245,315

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Notes to Financial Statements

31 March 2013

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 and properties classified as held for sale, which have been measured at fair value, and at the lower of its carrying amount and fair value less costs to sell, respectively. 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 2013. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it 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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the above revised HKFRSs did not have any material effect on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 *Effective for annual periods beginning on or after 1 July 2012*
2 *Effective for annual periods beginning on or after 1 January 2013*
3 *Effective for annual periods beginning on or after 1 January 2014*
4 *Effective for annual periods beginning on or after 1 January 2015*

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 April 2013.

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 April 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

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 2013

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 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.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

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, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 April 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 April 2013.

The HKAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 April 2013.

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 April 2013.

Notes to Financial Statements

31 March 2013

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

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 April 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 April 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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 to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

(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).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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	Not depreciated

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the 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.

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

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

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

Notes to Financial Statements

31 March 2013

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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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 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 write-off is later recovered, the recovery is credited to other expenses in the income statement.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

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.

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 quotation (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; and option pricing models.

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

- 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government subsidies

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

Revenue recognition

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

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

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

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

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

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation 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 difference 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).

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 prevailing 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.

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2.5 SIGNIFICANT ACCOUNTING ESTIMATES

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

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 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. Further details are contained in note 28 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further 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 the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

2.5 SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Estimation uncertainty (Continued)

Allowance on trade and other receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and aged analysis of the outstanding receivables and on management's estimation. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Write-down of inventories

Inventories are written down to net realisable value based on an assessment of their realisability. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and write-down of inventories in the periods in which such estimate is changed.

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, which is a measure of adjusted profit before tax. The adjusted profit 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, time deposits with original maturity of more than three months, cash and cash equivalents, financial assets 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 sale made to third parties at the then prevailing market prices.

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Operating segment

Year ended 31 March 2013

	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	54,409	216,806	271,215
Other revenue	288	11,150	11,438
Gain on disposal of subsidiaries	–	14,925	14,925
	54,697	242,881	297,578
Segment results	2,154	15,060	17,214
Reconciliation:			
Interest income			6,859
Dividend income and other unallocated gains			1,814
Corporate and other unallocated expenses			(19,275)
Finance costs			(467)
Profit before tax			6,145
Segment assets	85,467	244,172	329,639
Reconciliation:			
Deferred tax assets			240
Financial assets at fair value through profit or loss			333
Time deposits with original maturity of more than three months			96,305
Cash and cash equivalents			134,382
Corporate and other unallocated assets			147
Total assets			561,046
Segment liabilities	28,444	51,360	79,804
Reconciliation:			
Deferred tax liabilities			8,069
Tax payable			7,040
Interest-bearing bank and other borrowings			12,307
Corporate and other unallocated liabilities			23,755
Total liabilities			130,975
Other segment information:			
Depreciation and amortisation	3,821	13,570	17,391
Capital expenditure*	2,631	41,329	43,960

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

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Operating segment (Continued)

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	75,630	224,731	300,361
Reconciliation:			
Deferred tax assets			240
Financial assets at fair value through profit or loss			257
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.*

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3. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information

(i) Revenue from external customers:

	2013 **HK$'000**	2012 HK$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	**258,250**	328,482
Hong Kong	**12,751**	15,093
Elsewhere in Asia	**214**	683
	271,215	344,258

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

(ii) Non-current assets:

	2013 **HK$'000**	2012 HK$'000
The PRC, excluding Hong Kong	**222,115**	205,696
Hong Kong	**598**	26,320
	222,713	232,016

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

Information about major customers

Revenue of approximately HK$28,273,000, HK$28,102,000 and HK$27,407,000 for the year ended 31 March 2013 was derived from sales to three 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.

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:

	2013 HK$'000	2012 HK$'000
Revenue		
Sale of goods	**271,215**	344,258
Other income		
Franchise income	**9,004**	7,240
Dividend income from listed investments	**4**	2
Interest income	**6,859**	2,048
Subsidy income	**99**	462
Rental income	**1,019**	164
Others	**3,050**	2,790
	20,035	12,706
Gains		
Fair value gains on financial assets at fair value through profit or loss	**76**	–
	20,111	12,706

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5. PROFIT BEFORE TAX

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

	Notes	**2013 HK$'000**	2012 HK$'000
Cost of inventories sold		**155,626**	189,247
Depreciation	*13*	**11,512**	7,679
Recognition of prepaid land lease payments	*14*	**166**	144
Amortisation of intangible assets	*15*	**5,713**	5,978
Minimum lease payments under operating leases:			
Offices and buildings		**11,135**	7,745
Auditors' remuneration		**980**	920
Employee benefit expense (excluding directors' remuneration in note 7):			
Wages and salaries		**39,165**	23,494
Pension scheme contributions		**1,135**	998
		40,300	24,492
(Write-back)/write-down of provision of inventories to net realisable value*		**(582)**	448
Foreign exchange differences, net		**684**	78
Impairment of trade receivables		**737**	–
Reversal of impairment of trade receivables		**(114)**	–
Loss on disposal of items of property, plant and equipment		**26**	207
Fair value (gains)/losses on financial assets at fair value through profit or loss		**(76)**	39
Subsidy income**		**(99)**	(462)

* *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 these subsidies.*

6. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest on bank loans wholly repayable within five years	**409**	369
Interest on finance leases	**58**	74
	467	443

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 2013 and 2012, the interest on a bank loan which contains a repayment on demand clause amounted to HK$155,000 and HK$206,000, 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	
	2013 HK$'000	2012 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**270**	252
	270	252
Other emoluments:		
Salaries, allowances and benefits in kind	**3,760**	3,772
Pension scheme contributions	**60**	48
	3,820	3,820
	4,090	4,072

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7. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2013 HK$'000	2012 HK$'000
Mr. Guo Guoqing	**66**	78
Mr. Lam Siu Hung	**66**	78
Mr. Kwok Hok Lun	**66**	78
Dr. Liu Zhonghua	**72**	18
	270	252

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

(b) Executive directors

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2013			
Executive directors:			
Dr. Chiu Ka Leung	**1,546**	**15**	**1,561**
Ms. Yeh Shu Ping	**1,358**	**15**	**1,373**
Mr. Jiao Shaoliang	**610**	**15**	**625**
Dr. Lu Pingguo	**246**	**15**	**261**
	3,760	**60**	**3,820**
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

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2012: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2012: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,056**	3,057
Pension scheme contributions	**44**	36
	3,100	3,093

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

	Number of employees	
	2013	2012
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	3	3

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 (2012: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2013	2012
	HK$'000	HK$'000
Group:		
Current – Mainland China		
Charge for the year	**5,278**	26,442
Underprovision in prior years	**1,166**	–
Deferred tax *(note 28)*	**(1,221)**	1,852
Total tax charge for the year	**5,223**	28,294

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9. INCOME TAX EXPENSE (Continued)

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 (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2013

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(16,690)		22,835		6,145	
Tax at the statutory or applicable tax rate	(2,754)	16.5	5,709	25.0	2,955	48.1
Preferential tax rates	–	–	(2,841)	(12.4)	(2,841)	(46.2)
Adjustments in respect of current tax of previous periods	–	–	1,166	5.1	1,166	19.0
Income not subject to tax	(14)	0.1	(5,506)	(24.1)	(5,520)	(89.8)
Expenses not deductible for tax	–	–	2,275	10.0	2,275	37.0
Tax losses not recognised	2,688	(16.1)	4,394	19.2	7,082	115.2
Tax loss utilised from previous periods	(7)	0.0	–	–	(7)	(0.1)
Others	87	(0.5)	26	0.1	113	1.8
Tax at the Group's effective rate	–	–	5,223	22.9	5,223	85.0

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

9. INCOME TAX EXPENSE (Continued)

In accordance with the relevant tax rules and regulations in Mainland China, a subsidiary of the Company in Mainland China enjoying tax benefit as follows:

Subsequent to the end of reporting period, Yunnan Longrun Tea Technology Company Limited ("YNLR"), a subsidiary of the Company in the PRC was assessed as High and New Technology Enterprise which is subject to a reduced preferential corporate income tax ("CIT") rate of 15% for a 3-year period from 2012 to 2014 according to the applicable PRC Corporate Income Tax Law.

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 2013 includes a loss of HK$13,558,000 (2012: HK$18,124,000) which has been dealt with in the financial statements of the Company *(note 31(b))*.

11. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2013 (2012: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to owners of the Company of HK$6,397,000 (2012: HK$36,028,000), and the weighted average number of ordinary shares of 1,449,358,000 (2012: 1,449,010,000) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 March 2013 in respect of a dilution as the impact of the share options outstanding during the year had no dilutive effect on the basic earnings per share amounts presented.

The calculation of diluted earnings per share amounts is based on the profit for the year ended 31 March 2012 attributable to owners of the Company of HK$36,028,000. The weighted average number of ordinary shares used in the calculation is the 1,449,010,000 ordinary shares in issue during the year ended 31 March 2012, as used in the basic earnings per share calculation, and the weighted average number of 346,945 ordinary shares for the year ended 31 March 2012 assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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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$'000	Construction in progress HK$'000	Total HK$'000
31 March 2013									
At 1 April 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
At 1 April 2012, net of accumulated depreciation	48,164	6,568	5,369	1,514	865	2,897	2,057	–	67,434
Additions	–	16,219	4,155	1,546	2,473	480	–	19,087	43,960
Transfer to properties classified as held for sale *(note 18)*	(24,459)	–	–	–	–	–	–	–	(24,459)
Disposal	–	(13)	(5)	(14)	–	–	–	–	(32)
Disposal of subsidiaries *(note 32)*	–	(3,658)	(1,260)	(740)	–	(442)	–	–	(6,100)
Depreciation provided during the year	(2,556)	(4,884)	(2,131)	(138)	(433)	(1,370)	–	–	(11,512)
Transfers	–	1,392	–	–	–	–	–	(1,392)	–
Exchange realignment	292	151	144	29	39	15	28	235	933
At 31 March 2013, net of accumulated depreciation	21,441	15,775	6,272	2,197	2,944	1,580	2,085	17,930	70,224
At 31 March 2013:									
Cost	34,754	27,858	10,616	4,544	16,458	5,379	2,085	17,930	119,624
Accumulated depreciation	(13,313)	(12,083)	(4,344)	(2,347)	(13,514)	(3,799)	–	–	(49,400)
Net carrying amount	21,441	15,775	6,272	2,197	2,944	1,580	2,085	17,930	70,224

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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 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

* *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.*

The Group's land and buildings were held under the following lease terms:

	2013 HK$'000	2012 HK$'000
Net carrying amount:		
Land and buildings held under medium term leases in Hong Kong	**–**	25,412
Land and buildings held under medium term leases outside Hong Kong	**21,441**	22,752
	21,441	48,164

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

The net carrying amount of the Group's fixed assets held under finance leases included in the total amounts of motor vehicles at 31 March 2013 amounted to HK$366,000 (2012: HK$715,000).

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

During the year, a subsidiary of the Group entered into a sale and purchase agreement with an independent third party for the disposal of its property and accordingly, it was classified as property held for sale as at 31 March 2013 *(note 18)*.

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
31 March 2013				
At 1 April 2012:				
Cost	49	14	29	92
Accumulated depreciation	(41)	(7)	(13)	(61)
Net carrying amount	8	7	16	31
At 1 April 2012, net of accumulated depreciation	8	7	16	31
Depreciation provided during the year	(8)	(3)	(6)	(17)
At 31 March 2013, net of accumulated depreciation	–	4	10	14
At 31 March 2013:				
Cost	17	14	29	60
Accumulated depreciation	(17)	(10)	(19)	(46)
Net carrying amount	–	4	10	14

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 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

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14. PREPAID LAND LEASE PAYMENTS

	Group 2013 HK$'000	2012 HK$'000
Carrying amount at beginning of year	**5,872**	5,811
Recognised during the year	**(166)**	(144)
Exchange realignment	**77**	205
Carrying amount at end of year	**5,783**	5,872
Current portion included in prepayments, deposits and other receivables	**(166)**	(144)
Non-current portion	**5,617**	5,728

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

15. INTANGIBLE ASSETS

Group

	Franchise network HK$'000	Trademarks and right to the use of trademarks HK$'000	Exclusive purchase right HK$'000	Total HK$'000
31 March 2013				
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**
Cost at 1 April 2012, net of accumulated amortisation	**1,942**	**11,012**	**25,765**	**38,719**
Amortisation provided during the year	**(415)**	**(1,686)**	**(3,612)**	**(5,713)**
Disposal of subsidiaries *(note 32)*	**(1,520)**	**(1,520)**	**–**	**(3,040)**
Exchange realignment	**(7)**	**(7)**	**–**	**(14)**
At 31 March 2013	**–**	**7,799**	**22,153**	**29,952**
At 31 March 2013:				
Cost	**–**	**12,461**	**35,397**	**47,858**
Accumulated amortisation	**–**	**(4,662)**	**(13,244)**	**(17,906)**
Net carrying amount	**–**	**7,799**	**22,153**	**29,952**

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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 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

16. GOODWILL

Group

	HK$'000
Cost and net carrying amount at 31 March 2012 and 2013	**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% (2012: 16%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2012: 3%).

Assumptions were used in the value in use calculation of the distribution of tea and other food products cash-generating unit for 31 March 2013. 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.

The values assigned to key assumptions are consistent with external information sources.

In the opinion of the Company's directors, any reasonably possible change in any of these assumptions would not cause the cash-generating unit's recoverable amount to fall below its carrying amount.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	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 2013	2012	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
Longrun Tea Wealth Creation Company Limited ("Longrun Tea Wealth")	British Virgin Island/ Hong Kong	US$1	**100**	100	Investment holding

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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 2013	2012	Principal activities
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)**	The PRC/Mainland China	HK$47,000,000	100	100	Trading of tea products
Longrun Tea (HongKong) Chain Store Company Limited	Hong Kong	HK$1	100	100	Trading of tea products
雲南龍潤餐飲有限公司**^	The PRC/Mainland China	RMB2,000,000	–	70.9	Trading of tea products
湖南龍潤商貿有限公司**^	The PRC/Mainland China	RMB2,010,000	–	70.9	Trading of tea products
長沙龍澤品牌策劃有限公司**^	The PRC/Mainland China	RMB1,000,000	–	49.6	Trading of coffee products
雲南龍潤實業有限公司**#	The PRC/Mainland China	RMB10,000,000	100	–	Investment holding
北京龍潤十八號餐飲管理有限公司**#	The PRC/Mainland China	RMB600,000	100	–	Operating of clubhouse and trading
Longrun Tea Online Shopping Company Limited#	Hong Kong	HK$1	100	–	Trading of tea products
雲南龍潤十八號餐飲有限公司**#	The PRC/Mainland China	RMB1,000,000	100	–	Dormant

* *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.

^ *Disposed of during the year.*

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

18. PROPERTIES CLASSIFIED AS HELD FOR SALE

	Group 2013 HK$'000	2012 HK$'000
Carrying amount at beginning of year	–	–
Transfer from property, plant and equipment *(note 13)*	**24,459**	–
Carrying amount at end of year	**24,459**	–

On 18 January 2013, the Group announced the decision of its board of directors to dispose of its property located at 14/F, Tower One, Ever Gain Plaza, 88 Container Port Road, Kwai Chung, New Territories, Hong Kong, which is currently occupied by the Group as office, warehouse and packaging facility for trading of pharmaceutical products mainly in Hong Kong. The disposal of the property is due to be completed on 18 July 2013. As at 31 March 2013, the formal sale and purchase agreement was entered into between the Group and the purchaser, and the property was classified as property held for sale.

At 31 March 2013, the Group's properties classified as held for sale with carrying amount of HK$24,459,000 are situated in Hong Kong and are held under medium leases.

The carrying amount of Group's properties classified as held for sale held as at 31 March 2013 amounted to HK$24,459,000.

As at 31 March 2013, the property classified as held for sale with carrying amount of HK$24,459,000 was pledged to secure certain banking facilities granted to the Group *(note 26)*.

19. INVENTORIES

	Group 2013 HK$'000	2012 HK$'000
Trading goods	**3,603**	2,339
Finished goods	**9,433**	4,836
Work in progress	**5,033**	4,602
Raw materials	**5,111**	2,724
Packaging materials	**2,657**	2,086
	25,837	16,587

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20. TRADE RECEIVABLES

	Group 2013 HK$'000	2012 HK$'000
Trade receivables	**38,721**	30,290
Impairment	**(1,165)**	(542)
	37,556	29,748

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 invoice date and net of provisions, is as follows:

	Group 2013 HK$'000	2012 HK$'000
Within 1 month	**24,898**	11,710
2 to 3 months	**10,986**	12,889
3 to 12 months	**1,428**	4,898
Over 12 months	**244**	251
	37,556	29,748

An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date, that are not individually nor collectively considered to be impaired is as follows:

	Group 2013 HK$'000	2012 HK$'000
Current (neither past due nor impaired)	**35,539**	17,924
Within 1 to 3 months overdue	**994**	7,906
More than 3 months overdue but less than 12 months overdue	**868**	3,782
Over 12 months overdue	**155**	136
	37,556	29,748

20. TRADE RECEIVABLES (Continued)

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

	Group	
	2013	2012
	HK$'000	HK$'000
At beginning of the year	**542**	542
Impairment *(note 5)*	**737**	–
Reserval of Impairment *(note 5)*	**(114)**	–
	1,165	542

Included in the above provision for impairment of the trade receivable of HK$1,165,000 (2012: HK$542,000) with a carrying amount before provision of HK$1,290,000 (2012: HK$656,000).

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.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**5,314**	5,742	**4**	53
Deposits and other receivables	**13,907**	16,739	**129**	128
	19,221	22,481	**133**	181

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.

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22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2013	2012
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**333**	257

The above equity investments at 31 March 2013 and 2012 were classified as held for trading.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**28,140**	87,811	**135**	135
Time deposits	**106,242**	–	**–**	–
Cash and cash equivalents	**134,382**	87,811	**135**	135

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$76,320,000 (2012: HK$80,385,000). 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 time deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values.

24. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled in 90-day terms.

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

	Group	
	2013	2012
	HK$'000	HK$'000
Current	**413**	1,563
Within 1 to 3 months overdue	**17,750**	10,316
More than 3 months overdue but less than 12 months overdue	**6,009**	4,266
Over 12 months overdue	**1,640**	1,327
	25,812	17,472

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

	2013	2012
	HK$'000	HK$'000
Yunnan Longrun Tea Development Company Limited ("YLRT") 雲南龍潤茶業發展有限公司	**2,412**	4,278
Yunnan Longrun Tea Group Limited ("LRTG") 雲南龍潤茶業集團有限公司	**10,791**	3,282
Fengqing Longrun Tea Company Limited ("FLRT") 鳳慶龍潤茶業有限公司	**824**	2,514
Changning Longrun Tea Company Limited ("CLRT") 昌寧縣龍潤茶業有限公司	**798**	212
	14,825	10,286

YLRT, FLRT and CLRT 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.

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25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Receipts in advance	**37,450**	29,551	**–**	–
Accruals	**18,001**	10,921	**8,980**	5,100
Other payables	**2,148**	4,011	**–**	–
	57,599	44,483	**8,980**	5,100

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

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	**2013**			2012		
	Effective contractual interest rate (%)	**Maturity**	**HK$'000**	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loan repayable on demand – secured *(Note)*	**2.4**	**2014/ on demand**	**11,623**	–	–	–
Bank loan – secured	**–**	**–**	**–**	2.75 – 6.25	2013	6,000
Current portion of long term bank loan – secured *(Note)*	**–**	**–**	**–**	2.5	2013	1,828
Long term bank loan repayable on demand – secured *(Note)*	**–**	**–**	**–**	2.5	On demand	3,959
Finance lease payable *(note 27)*	**2.5 – 4.5**	**2014**	**245**	2.5 – 4.5	2013	227
			11,868			12,014
Non-current						
Finance lease payable *(note 27)*	**2.5 – 4.5**	**2015**	**439**	2.5 – 4.5	2014 – 2015	748
			12,307			12,762

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2013 HK$'000	2012 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand *(Note)*	**11,623**	11,787
Other borrowings repayable:		
Within one year	**245**	227
In the second year	**264**	246
In the third to fifth years, inclusive	**175**	502
	684	975
	12,307	12,762

Note: In accordance with HK Interpretation 5, the Group's bank loan of HK$11,623,000 (2012: term loan of HK$5,787,000) 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 loans are analysed into:

	2013 HK$'000	2012 HK$'000
Within one year	**11,623**	1,828
In the second year	**–**	1,874
In the third to fifth years, inclusive	**–**	2,085
	11,623	5,787

(a) The Group's bank loans were secured by mortgages over the Group's properties classified as held for sale with an aggregate net carrying amount of HK$24,459,000 as at 31 March 2013. The same property, which was classified as land and buildings as at 31 March 2012 with an aggregate net carrying amount of HK$24,889,000, was pledged to secure certain banking facilities granted to the Group.

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

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

27. 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 finance leases and have remaining lease terms of two years.

At 31 March 2013, the total future minimum lease payments under finance leases and its present values were as follows:

Group

	Minimum lease payments 2013 HK$'000	Minimum lease payments 2012 HK$'000	**Present value of minimum lease payments 2013 HK$'000**	Present value of minimum lease payments 2012 HK$'000
Amounts payable:				
Within one year	**285**	285	**245**	227
In the second year	**285**	285	**264**	246
In the third to fifth years, inclusive	**180**	529	**175**	502
Total minimum finance lease payments	**750**	1,099	**684**	975
Future finance charges	**(66)**	(124)		
Total net finance lease payables	**684**	975		
Portion classified as current liabilities *(note 26)*	**(245)**	(227)		
Non-current portion *(note 26)*	**439**	748		

28. DEFERRED TAX

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

Deferred tax liabilities

Group

	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Withholding tax HK$'000	Total HK$'000
At 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
At 31 March 2012 and 1 April 2012	**9,282**	**2,500**	**11,782**
Deferred tax credited to the income statement during the year *(note 9)*	**(1,221)**	**–**	**(1,221)**
Transfer to current tax	**–**	**(2,500)**	**(2,500)**
Exchange realignment	**8**	**–**	**8**
Gross deferred tax liabilities at 31 March 2013	**8,069**	**–**	**8,069**

Deferred tax assets

Group	**HK$'000**
Gross deferred tax assets at 1 April 2011, 31 March 2012 and 31 March 2013	**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**	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Tax losses	**99,071**	89,623	**50,410**	37,684
Deductible temporary differences	**117**	1,228	**–**	–
	99,188	90,851	**50,410**	37,684

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

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28. 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.

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$147,762,000 at 31 March 2013 (2012: HK$153,957,000).

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

29. SHARE CAPITAL

	2013 **HK$'000**	2012 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.05 each	**250,000**	250,000
Issued and fully paid:		
1,449,520,000 (2012: 1,449,010,000) ordinary shares of HK$0.05 each	**72,476**	72,451

29. SHARE CAPITAL (Continued)

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

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 April 2011, 31 March 2012 and 1 April 2012	1,449,010,000	72,451	252,153	324,604
Share options exercised:				
Share option scheme	**510,000**	**25**	**166**	**191**
At 31 March 2013	**1,449,520,000**	**72,476**	**252,319**	**324,795**

Share options

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

30. EQUITY COMPENSATION PLANS

(a) Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. On 17 August 2012, the Company passed a resolution at the annual general meeting for the adoption of a new Scheme (the "2012 Share Option Scheme") as the Scheme adopted in 2002 (the "2002 Share Option Scheme") expired on 4 September 2012. The 2012 Share Option Scheme became effective on 17 August 2012 and, unless otherwise cancelled or amended, would 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 2012 Share Option Scheme is 144,952,000, representing 10% of the shares of the Company in issue as at the date of adoption of the 2012 Share Option Scheme and the date of approval of these financial statements. Outstanding share options granted under the 2002 Share Option Scheme would remain exercisable, unless otherwise cancelled or amended, in accordance with the 2002 Share Option Scheme.

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

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30. EQUITY COMPENSATION PLANS (Continued)

(a) Share Option Scheme (Continued)

The offer of a grant of share options under the Scheme 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 closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of the share options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets 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.

As at 31 March 2013, no share options were outstanding under the 2002 Share Option Scheme and the 2012 Share Option Scheme. No share options were granted, exercised or lapsed under the 2012 Share Option Scheme during the year.

The following share options were outstanding under the 2002 Share Option Scheme during the year:

	2013		2012	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 April	**0.375**	**1,290,000**	0.375	1,290,000
Exercised during the year	**0.375**	**(510,000)**	–	–
Lapsed during the year	**0.375**	**(780,000)**	–	–
At 31 March	–	–	0.375	1,290,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.435 per share (2012: No share options were exercised).

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30. EQUITY COMPENSATION PLANS (Continued)

(a) Share Option Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at 31 March 2012 are as follows:

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		

* *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.*

(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 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:

	2013		2012	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 April and 31 March	**0.4**	**4,000,000**	0.4	4,000,000

30. EQUITY COMPENSATION PLANS (Continued)

(b) Option agreements (Continued)

No share options were granted, exercised or lapsed 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:

2013 and 2012

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 4,000,000 share options outstanding with an exercise price of HK$0.4 per share, represent approximately 0.3% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 35 of the financial statements.

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

31. RESERVES (Continued)

(b) Company

	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 2011		252,153	46,999	4,098	(112,262)	190,988
Loss for the year and total comprehensive loss for the year		–	–	–	(18,124)	(18,124)
At 31 March 2012 and 1 April 2012		**252,153**	**46,999**	**4,098**	**(130,386)**	**172,864**
Loss for the year and total comprehensive loss for the year		**–**	**–**	**–**	**(13,558)**	**(13,558)**
Exercise of share options	*29*	**166**	**–**	**–**	**–**	**166**
At 31 March 2013		**252,319**	**46,999**	**4,098**	**(143,944)**	**159,472**

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. Pursuant to Cayman Islands company law, a company may make distributions to its members out of the contributed surplus in certain circumstances.

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32. DISPOSAL OF SUBSIDIARIES

	2013 HK$'000
Net liabilities disposed of:	
Property, plant and equipment	6,100
Intangible assets	3,040
Inventories	635
Trade receivables	131
Prepayments and other receivables	5,897
Cash and bank balances	3,666
Trade payables	(44)
Other payables and accruals	(42,357)
Due to related companies	(14)
Non-controlling interests	8,521
	(14,425)
Gain on disposal of subsidiaries	14,925
	500
Satisfied by:	
Cash	500
An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:	
Cash consideration	500
Cash and bank balances disposed of	(3,666)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(3,166)

33. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

As at 31 March 2012, finance lease arrangement in respect of property, plant and equipment at the inception of the lease amounted to HK$497,000.

34. CONTINGENT LIABILITY

As at 31 March 2013, the Company provided a guarantee given to a bank in connection with the banking facilities of HK$11,623,000 (2012: HK$6,000,000) granted to the Company's subsidiary.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases part of its factory under operating lease arrangements, with leases negotiated for terms ranging from one to three years. 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 2013, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2013 HK$'000	2012 HK$'000
Within one year	**23**	10
In the second to fifth years, inclusive	**6,364**	–
	6,387	10

(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 2013, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Within one year	**9,889**	8,732	**499**	436
In the second to fifth years, inclusive	**37,711**	35,953	**–**	–
After five years	**53,961**	50,725	**–**	–
	101,561	95,410	**499**	436

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36. COMMITMENTS

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

	2013 HK$'000	2012 HK$'000
Contracted, but not provided for:		
Leasehold improvements	**1,413**	13,108

37. RELATED PARTY TRANSACTIONS

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

	Notes	**2013 HK$'000**	2012 HK$'000
Purchases of tea products from:			
CLRT	*(ii), (iii)*	**30,726**	44,917
FLRT	*(ii), (iii)*	**18,130**	29,541
Yunxian Tianlong Eco-Tea Company Limited ("YTET")	*(ii), (iii)*	**10,147**	11,411
YLRT	*(ii), (iii)*	**3,372**	8,292
LRTG	*(ii), (iii)*	**41,242**	62,154
		103,617	156,315
Loan borrowed from LRTG	*(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 had been repaid in prior year.

The above transactions in respect of purchase of tea products entered into by the Group during the year ended 31 March 2013 also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Other transaction with related party

During the year, the Group disposed of its 70.9%-owned subsidiary, 雲南龍潤餐飲有限公司 and its wholly-owned subsidiaries, namely 湖南龍潤商貿有限公司 and 長沙龍澤品牌策劃有限公司, to Dr. Chiu Ka Leung, the director of the Company, at a cash consideration of HK$500,000. The disposal was completed in early January 2013. Further details of assets and liabilities disposed of are set out in note 32 to the financial statements.

37. RELATED PARTY TRANSACTIONS (Continued)

(c) 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.

(d) Compensation of key management personnel of the Group

	2013 **HK$'000**	2012 HK$'000
Short term employee benefits	**10,284**	10,294
Post-employment benefits	**188**	155
	10,472	10,449

38. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain financial instruments being classified as financial assets at fair value through profit or loss as disclosed in note 22 to the financial statements, all financial assets and liabilities of the Company and the Group as at 31 March 2012 and 2013 are loans and receivables and financial liabilities stated at amortised cost, respectively.

39. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's and the Company's financial instruments as at 31 March 2013 and 2012 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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39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

As at 31 March 2013, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 March 2013 and 2012:

31 March 2013	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Equity investments at fair value through profit or loss	**333**	**–**	**–**	**333**

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

During the years ended 31 March 2013 and 2012, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

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 51.2% (2012: 44.2%) 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.

40. 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

	2013		
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**285**	**465**	**750**
Bank loan subject to a repayment on demand clause *(Note)*	**11,838**	**–**	**11,838**
Trade payables	**25,812**	**–**	**25,812**
Other payables and accruals	**20,149**	**–**	**20,149**
Due to related companies	**3,607**	**–**	**3,607**
Due to directors	**16,541**	**–**	**16,541**
	78,232	**465**	**78,697**

	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

Notes to Financial Statements

31 March 2013

40. 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$11,623,000 (2012: HK$5,787,000) 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 2013 are HK$11,838,000 in 2014. 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.

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 2013 and 2012.

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

	2013 **HK$'000**	2012 HK$'000
Total liabilities	**130,975**	122,824
Total equity	**430,071**	417,107
Gearing ratio	**30.5%**	29.4%

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 June 2013.

Five-Year Financial Summary

A summary of the results and assets, 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				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**271,215**	344,258	394,955	160,121	38,781
PROFIT/(LOSS) BEFORE TAX	**6,145**	60,891	84,126	(18,886)	(5,507)
Income tax expense	**(5,223)**	(28,294)	(25,347)	(11,728)	–
PROFIT/(LOSS) FOR THE YEAR	**922**	32,597	58,779	(30,614)	(5,507)
Attributable to:					
Owners of the Company	**6,397**	36,028	59,477	(30,614)	(5,507)
Non-controlling interests	**(5,475)**	(3,431)	(698)	–	–
	922	32,597	58,779	(30,614)	(5,507)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**561,046**	539,931	487,391	362,105	86,640
TOTAL LIABILITIES	**(130,975)**	(122,824)	(111,326)	(58,463)	(37,061)
NON-CONTROLLING INTERESTS	**–**	3,177	21	–	–
	430,071	420,284	376,086	303,642	49,579