2014 Annual Report

LongRun 龍潤

LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2898

Contents

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
Level 22, Hopewell Centre,
183 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 2014.

2014 was a challenging year. The market conditions have remained difficult for retailers as a result of the economic slowdown in Mainland China and the low economic growth in the U.S. and European countries. Together with the continuing inflationary operating costs, the results of the Group have been dampened.

The property prices in Hong Kong are still rising after four years of continuous house price rises. In order to strive for the maximum return to the shareholders, the management of the Group decided to dispose of the Group's property. The disposal was completed in July 2013, and recorded a gain of approximately HK$69 million before deducting tax and expenses.

To further broaden our distribution network, the Group supplies tea and other food products to Ideality Group, a company possesses a direct selling operating permit issued by Ministry of Commerce of The People's Republic of China ("PRC" or "Mainland China") and is principally engaged in direct selling businesses in the PRC.

In October 2013, Longrun Tea was awarded "Hong Kong Star Brand 2013 – Enterprises Award" by Hong Kong Small and Medium Enterprises Association in recognition of Longrun Tea's corporate social responsibility and its contribution to sustainable social development.

Looking forward, the Group will leverage on the high level of recognition and popularity of the "Longrun Tea"（龍潤茶）brand to diversify the distribution network, including but not limited to the traditional tea shops, despite the tough and challenging environment we are operating in. The Group will continue to implement the cost effective strategies, and 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 my gratitude to all business partners for their valuable inputs, and all shareholders and customers for their valuable 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, 27 June 2014

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 March 2014, the revenue of the Group increased by approximately 5.6% to approximately HK$286,514,000 (2013: HK$271,215,000). The gross profit of the Group decreased by approximately 2.9% to approximately HK$112,344,000 (2013: HK$115,715,000).

Selling and distribution expenses of the Group increased by 12.0% to approximately HK$102,967,000 (2013: HK$91,904,000). The increase was mainly due to the increase in the expenses in relation to recruitment of franchisees.

Administrative expenses of the Group increased by 46.4% to approximately HK$67,905,000 (2013: HK$46,369,000). The increase was mainly resulted from the Group's payment of a one-off special bonus of approximately HK$26 million to certain directors and management, for their contribution on the sale of the Group's property located at 14th Floor, Tower One, Ever Gain Plaza, 88 Container Port Road, Kwai Chung, New Territories, Hong Kong.

Profit for the year was approximately HK$14,908,000 (2013: HK$922,000), increased approximately 15 times year-on-year. Profit attributable to owners of the Company amounted to approximately HK$14,908,000 (2013: HK$6,397,000), increased by approximately 133.0% year-on-year. Despite of the deterioration of the Group's operating results, the increase in the profit was mainly due to the one-off income arising from the disposal of the Group's property in July 2013.

Basic earnings per share were HK1.03 cents as compared to that of HK0.44 cent in previous financial year.

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. The Group continued to expand its distribution network during the year.

For the year under review, there was deterioration in the operating results of the Group's tea and other food products businesses as compared to the corresponding year for 2013. Such deterioration was mainly attributable to the generally poor spending sentiment and confidence of consumer market of tea and food products in the PRC. In this regard, the Group has offered more attractive sale promotions during the year in order to maintain the brand awareness and expand our distribution network.

Revenue for the year from tea and other food products businesses was approximately HK$226,838,000 (2013: HK$216,806,000), accounting for approximately 79.2% (2013: 79.9%) of the Group's total revenue.

For the year ended 31 March 2014, the Group recorded an operating loss of approximately HK$14,297,000 for the tea and other food products businesses as compared to an operating gain of approximately HK$15,060,000 for the year ended 31 March 2013. The loss was mainly due to (1) the absence of a one-off gain from disposal of subsidiaries; and (2) increase in expenses in relation to additional sale promotions launched to maintain the brand awareness and to expand the Group's distribution network.

Management Discussion and Analysis

Tea Shops

Our traditional and convenient tea products, i.e. tea cake, loose tea leaves, tea gift sets, convenient tea cups, instance tea essence and tea bags, etc., are sold in traditional tea shops. The convenient tea shops, mostly located close to business centres and office buildings, primarily sell and distribute convenient tea products for office use, such as convenient tea cups, instance tea essence and tea bags. For the year ended 31 March 2014, the Group has devoted much of its resources to strengthen the distribution network, such as offering special incentive discounts and better supportive services to new franchisees. As at 31 March 2014, the Group managed a network comprising a total of over 500 self-owned and franchised tea shops primarily located in Mainland China. Although rapid expansion of the franchise network has brought pressure on the Group's margin, the management believes that the network expansion will enhance brand and product recognitions in the PRC which the Group will be benefited in the medium term.

Mega Retail Outlet Targeting Tourists

Besides the traditional tea shops, the Group also focuses on the tourists market. The Group has opened mega retail outlets targeting both domestic and international tourists travelling to Yunnan Province. The Group now operates four Mega Retail Outlets in Kunming, Yunnan Province with a gross total area over 80,000 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
Kunming World Horticultural Expo Garden (昆明世界園藝博覽園)	A must-see tourist attraction in Kunming
Yunnan Nationalities Village (雲南民族村)	25 ethnic minorities living in Yunnan Province
Lijiang City (麗江市)	The world famous "Old Town of Lijiang" which is an UNESCO Heritage Site

Award and Accreditation

In October 2013, Longrun Tea was awarded "Hong Kong Star Brand 2013 – Enterprises Award" by Hong Kong Small and Medium Enterprises Association in recognition of Longrun Tea's corporate social responsibility and its contribution to sustainable social development.

Disposal of the Group's Property

On 18 January 2013, Long Far Investment (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company, entered into a provisional sale and purchase agreement with an independent third party, in relation to the Group's disposal of the property located at 14th Floor, Tower One, Ever Gain Plaza, 88 Container Port Road, Kwai Chung, New Territories, Hong Kong, which was occupied by the Group for office and industrial uses and has a saleable area of approximately 22,819 square feet. The consideration is HK$93,557,900.

The disposal was completed on 18 July 2013. The Group recorded a gain on disposal of the property of approximately HK$69.61 million before deducting tax and expenses.

Management Discussion and Analysis

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$59,676,000 (2013: HK$54,409,000), accounting for approximately 20.8% (2013: 20.1%) of the Group's total revenue. "Beauty and Healthy"（排毒美顏寶）remained as the Group's major revenue contributor in this segment, accounting for 3.4% (2013: 4%) of the total turnover during the year.

For the year ended 31 March 2014, the Group recorded an operating loss of approximately HK$2,459,000 for healthcare and pharmaceutical business compared to an operating gain of approximately HK$2,154,000 for the year ended 31 March 2013. The loss was mainly due to the increase in the provision of inventories during the year.

PROSPECTS

Looking ahead, the global and Mainland China economies continue to face uncertainties in the year 2014 and that the consumers are more cautious about their consumption spending. Coupled with the decreasing trend of the spending on luxury products and business gifts, the domestic retail market continues to slow down and consumption growth is expected to shrink.

The Group's distribution network in Mainland China provides an efficient sales platform for the Group's products. Save for expanding the number of franchise shops, the Group also actively explores new sales channels or platform to reach different segments of customers and to promote brand awareness. In this regard, the Group entered into a sale agreement in April 2014 to supply tea products to Ideality Group, a company possesses a direct selling operating permit issued by the Ministry of Commerce of the PRC and is principally engaged in direct selling business in the PRC. Hence, the management expects new sales channels will benefit the Group in both medium and long term. In response to the challenging operating environment, the Group will continue to monitor its cost structure closely and to formulate business strategies to enhance its operational efficiency.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2014, the Group had current assets of HK$377,334,000 (2013: HK$338,093,000) and cash and bank balances of HK$100,363,000 (2013: HK$134,382,000). The Group's current liabilities as at 31 March 2014 were HK$133,450,000 (2013: HK$122,467,000).

As at 31 March 2014, total equity was HK$444,855,000 (2013: HK$430,071,000). The Group had interest-bearing bank and other borrowings of HK$439,000 as at 31 March 2014 (2013: HK$12,307,000). The gearing ratio as at 31 March 2014, being the ratio of total liabilities to total equity, was 33% (2013: 30%).

EMPLOYEES

As at 31 March 2014, the Group had 729 employees (2013: 792 employees).

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

CONTINGENT LIABILITIES

As at 31 March 2014, the Group did not have any significant contingent liabilities.

Management Discussion and Analysis

PLEDGE OF THE GROUP'S ASSETS

As at 31 March 2014, there was no 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 were pledged to secure banking facilities granted to the Group.

EXPOSURES TO EXCHANGE RATE FLUCTUATION

The Group mainly operates in the PRC with most transactions settled in Renminbi. The assets and liabilities, and transactions arising from the operations were mainly denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board believes that future currency fluctuations will not have any material impact on the Group's operations. The Group had not adopted formal hedging policies.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Chiu Ka Leung, aged 50, 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 67, 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 40, 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 42, 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 (now known as "Western University"). 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 55, 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. Mr. Lam has over 20 years' experience in accounting, auditing, taxation and corporate finance.

Mr. Guo Guoqing, aged 51, 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 中國人民大學商學院 (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.

Currently, Mr. Guo is an independent non-executive director of Livzon Pharmaceutical Group Inc. (stock code: 1513), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"); and an independent director of Jiugui Liquor Co., Ltd. (stock code: 000799) and Sinosteel Jilin Carbon Co., Ltd. (stock code: 000928), both companies are listed on the Shenzhen Stock Exchange, and Gree Real Estate Co., Ltd. (stock code: 600185) and Beijing Wangfujing Department Store (Group) Co., Ltd. (stock code: 600859), both companies are listed on the Shanghai Stock Exchange. He was also the chairman of the board of supervisors of Shenzhen Tatfook Technology Co., Ltd. (stock code: 300134), a company listed on the Shenzhen Stock Exchange.

Mr. Kwok Hok Lun, aged 38, 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 49, 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 retired as an independent director of Hunan Hansen Pharmaceutical Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002412) in May 2014.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Han Ping, Joseph, aged 44, 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 45, 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 45, is the Financial Controller and Company Secretary of the Company. Mr. Hui is responsible for the Group's corporate finance and accounting affairs. Mr. Hui is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Hui graduated from the Lingnan University with a bachelor degree with honour in business administration in 1997. Before joining the Group in February 1999, Mr. Hui has over ten years of experience in auditing, accounting and finance and worked with an international accounting firm in Hong Kong.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance 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.

The Board considers that during the year ended 31 March 2014, the Company has applied the principles and complied with the code provisions set out in the CG Code, except for the code provision E.1.2. Key corporate governance principles and practices of the Company as well as the details of the foregoing deviation are summarized below.

A THE BOARD

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in the attainment of the objective of ensuring effective functioning and growth of the Group and enhancing value to investors. All the directors carry out their duties in good faith, 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 above-mentioned officers. The Board has the full support of the senior management to discharge its responsibilities.

Corporate Governance Report

A2. Board Composition

The composition of the Board as at 31 March 2014 is as follows:

Executive directors:

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

Independent non-executive directors:

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

Throughout the year ended 31 March 2014, 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.

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 "2014 AGM"), Mr. Jiao Shaoliang, Dr. Lu Pingguo and Mr. Lam Siu Hung 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 2014 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 for 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 2014, 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, Dr. Lu Pingguo, Mr. Kwok Hok Lun and Mr. Lam Siu Hung attended seminars, which are relevant to their duties and responsibilities, organized by professional firms/institutions.

Corporate Governance Report

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 2014 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	5/5	N/A	4/4	1/1	0/1	0/1
Ms. Yeh Shu Ping	5/5	N/A	4/4	N/A	0/1	0/1
Mr. Jiao Shaoliang	5/5	N/A	N/A	N/A	0/1	0/1
Dr. Lu Pingguo	5/5	N/A	N/A	N/A	1/1	1/1
Independent non-executive directors:						
Mr. Lam Siu Hung	5/5	2/2	4/4	1/1	0/1	0/1
Mr. Guo Guoqing	1/5	0/2	0/4	0/1	0/1	0/1
Mr. Kwok Hok Lun	3/5	2/2	4/4	1/1	0/1	0/1
Dr. Liu Zhonghua	0/5	N/A	0/4	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 2014.

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.

During the year under review, the Board has performed such corporate governance functions as follows: (i) reviewed and developed the Company's corporate governance policies and practices, (ii) reviewed and monitored the training and continuous professional development of directors and senior management, (iii) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements, (iv) reviewed and monitored the compliance of the Model Code and the Employee Written Guidelines, and (v) reviewed the Company's compliance with the CG Code and disclosure in the 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 the Board with reference to the performance of the individual and the Company as well as market practice and conditions.

During the year ended 31 March 2014, the Remuneration Committee has held 4 meetings (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;
- 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; and
- recommended the payment of special bonuses to certain directors and senior management of the Company with a view to rewarding them for their contribution in the sale of the Company's property.

Corporate Governance Report

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 2014 is set out below:

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

Details of the remuneration of each director of the Company for the year ended 31 March 2014 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 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 diversity on the Board, 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.

The Company also recognizes and embraces the benefit of having a diverse Board to enhance the quality of its performance. To comply with the provision of A.5.6 of the CG Code, a Board diversity policy was adopted by the Company on 27 September 2013, pursuant to which the Nomination Committee is responsible for monitoring the implementation of the Board diversity policy and assessing the Board composition under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience). The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board.

During the year ended 31 March 2014, 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 28 August 2013 (the "2013 AGM"); and

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

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 2014, 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 2013, 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 2013 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. Besides, 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 Group for the year ended 31 March 2014.

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.

Corporate Governance Report

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 Group.

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 2014, 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 2014 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 2014 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** HK$
Audit services	
– audit fee for the year ended 31 March 2014	1,120,000
Non-audit services	
– interim review for the six months ended 30 September 2013	280,000
TOTAL:	1,400,000

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 recognizes 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. Besides, the chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Dr. Chiu Ka Leung, the Chairman of the Company, was unable to attend the 2013 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 2013 AGM and communicate with the shareholders. The Company Secretary and other senior management were also available to answer questions from the shareholders at the 2013 AGM.

At the Company's extraordinary general meeting held on 5 April 2013 for renewal of the continuing connected transactions (details of such transactions were set out in the Company's circular dated 15 March 2013), the independent board committee members were not present as they had other business engagements. The Company's management was arranged to answer questions from the independent shareholders at the meeting.

No question was raised by any shareholders during the said two meetings.

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 on 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholder(s) must provide their full names, 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 2014.

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 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 101.

The Board does not recommend the payment of any dividend for the year ended 31 March 2014 (2013: 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, as extracted from the audited financial statements, is set out on page 102. This summary does not form part of the audited financial statements of the Group for the year ended 31 March 2014.

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

There were no movements in either the Company's authorised or issued share capital or share options during the year.

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 under review.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 March 2014, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$106,301,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$9,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 81% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 41%.

Dr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 54.03% in the Company's share capital, had beneficial interests in the five largest suppliers which accounted for approximately 81% of the total purchases of the Group.

Mr. Jiao Shaoliang, a director of the Company, had beneficial interests in the five largest suppliers which accounted for approximately 81% of the total purchases of the Group.

Save as disclosed above, none of the directors of the Company or any of their close 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 suppliers.

During the year, the aggregate turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year.

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, Mr. Jiao Shaoliang, Dr. Lu Pingguo and Mr. Lam Siu Hung, 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 forthcoming annual general meeting of the Company. The above retiring directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of two 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 forthcoming annual general meeting 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 2014, the interests 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 Division 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	783,254,500	54.03%
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	16,880,000	1.16%

Report of the Directors

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

(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 the note 31 to the financial statements and the section headed "Share options" below.

[+] *The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 31 March 2014.*

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

Save as disclosed above and in the section headed "Share options", as at 31 March 2014, none of the directors or chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (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 as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 31 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 IN SHARES

As at 31 March 2014, the following persons had interests of 5% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or as the Company is aware:

Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares	Percentage+ of the Company's issued share capital
Guo Jinxiu	Interest held by spouse *(Note)*	783,254,500	54.03%
Chen Fang	Beneficial owner	110,000,000	7.58%
徐永鋒	Beneficial owner	100,000,000	6.89%

Note: Guo Jinxiu, being the spouse of Dr. Chiu Ka Leung, was deemed to have such interest held by Dr. Chiu Ka Leung. Such interest of Dr. Chiu Ka Leung has been disclosed in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above.

+ *The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2014.*

Save as disclosed above, as at 31 March 2014, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

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.

SHARE OPTIONS

(A) Share option scheme

As set out in note 31(a) to the financial statements, the Company currently operates a share option scheme adopted by the Company on 17 August 2012 (the "Scheme"), which is made pursuant to Chapter 17 of the Listing Rules, 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. The 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 option has been granted under the Scheme since its adoption.

All the remaining outstanding share options under the Company's share option scheme adopted in 2002 were exercised or lapsed during the year ended 31 March 2013.

(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 fulfilment 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 2013	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 March 2014	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.

CONNECTED TRANSACTIONS

During the current and prior years, the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transaction

On 25 January 2013, in accordance with the terms of a sale and purchase agreement of the same date, Dr. Chiu Ka Leung, a director of the Company, acquired from 雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited) (formerly known as 雲南龍潤商貿有限公司 (Yunnan Longrun Business and Trade Company Limited)) ("PRC Longrun", an indirect wholly-owned subsidiary of the Company since 23 July 2009) the 70.9% share capital of 雲南龍潤餐飲有限公司 and its subsidiaries at a cash consideration of HK$500,000. This transaction fell within the de minimis exemption pursuant to Chapter 14A of the Listing Rules. Further details of this transaction are included in note 33 and 37(b) to the financial statements.

Continuing connected transaction

On 12 May 2009, PRC Longrun 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 meaning of the Listing Rules since Dr. Chiu Ka Leung and Mr. Jiao Shaoliang were directly interested in 90% and 10%, respectively, of the issued share capital of Longrun Tea Group, for a term of 10 years. Pursuant to the Purchase Agreement, PRC Longrun is granted an exclusive right to purchase the tea products and other food products manufactured by Longrun Tea Group (the "Tea Products") and to use the trademarks (including both registered and unregistered trademarks) and other intellectual properties owned by Longrun Tea Group and its subsidiaries (such transaction be hereinafter referred to as the "Transaction"). As such, all the Tea Products are sold to PRC Longrun. PRC Longrun, through developing its own distribution network of self-operated stores and franchised stores, is distributing the Tea Products to the market. With the Purchase Agreement, a long-term contract in place, PRC Longrun is able to secure the supply of high quality pu'erh tea products at favourable purchase terms.

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

The maximum amount of purchase of the Tea Products payable by PRC Longrun to Longrun Tea Group arising from the Transaction approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 5 April 2013 for each of the three financial years ended/ending 31 March 2014, 31 March 2015 and 31 March 2016 was HK$150,000,000, HK$170,000,000 and HK$190,000,000, respectively. For the year ended 31 March 2014, the amount of fees paid to Longrun Tea Group under the Transaction amounted to HK$133,814,000, which was within the above maximum amount of HK$150,000,000. Further details of the Transaction are included in note 37(a) to the financial statements.

The independent non-executive directors of the Company have reviewed the Transaction for the year ended 31 March 2014 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.

Report of the Directors

CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions (Continued)

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

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

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

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

As at 31 March 2014, since YPYP had only distributed Health & Beauty InnerPure Capsules（排毒養顏膠囊）in Mainland China since its launching in 1995 while the Group distributed Beauty and Healthy（排毒美顏寶）under the Group's brand name of 「龍發製藥」(Long Far) in Hong Kong, Southeast Asia and other Asian regions outside Mainland China, the directors consider that the operations of YPYP will not affect the Group's business.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 14 August 2014 to Monday, 18 August 2014 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on 18 August 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 13 August 2014.

AUDITORS

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

ON BEHALF OF THE BOARD

Chiu Ka Leung
Chairman

Hong Kong
27 June 2014

Independent Auditors' Report

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 32 to 101, which comprise the consolidated and company statements of financial position as at 31 March 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 2014, 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
27 June 2014

Consolidated Statement of Profit or Loss

Year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
REVENUE	4	**286,514**	271,215
Cost of sales		**(174,170)**	(155,500)
Gross profit		**112,344**	115,715
Other income and gains	4	**9,737**	20,111
Gain on disposal of items of property, plant and equipment, net		**68,846**	–
Gain on disposal of subsidiaries	33	**151**	14,925
Selling and distribution expenses		**(102,967)**	(91,904)
Administrative expenses		**(67,905)**	(46,369)
Amortisation of intangible assets	15	**(4,884)**	(5,713)
Other expenses		**(53)**	(153)
Finance costs	6	**(131)**	(467)
PROFIT BEFORE TAX	5	**15,138**	6,145
Income tax expense	9	**(230)**	(5,223)
PROFIT FOR THE YEAR		**14,908**	922
Attributable to:			
Owners of the Company	10	**14,908**	6,397
Non-controlling interests		**–**	(5,475)
		14,908	922
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	12		
Basic		**HK1.03 cents**	HK0.44 cent
Diluted		**HK1.03 cents**	HK0.44 cent

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

Consolidated Statement of Comprehensive Income

Year ended 31 March 2014

	2014 **HK$'000**	2013 HK$'000
PROFIT FOR THE YEAR	**14,908**	922
OTHER COMPREHENSIVE INCOME		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(124)**	3,330
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(124)**	3,330
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**14,784**	4,252
Attributable to:		
Owners of the Company	**14,784**	9,596
Non-controlling interests	**–**	(5,344)
	14,784	4,252

Consolidated Statement of Financial Position

31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**66,812**	70,224
Prepaid land lease payments	14	**5,489**	5,617
Intangible assets	15	**25,068**	29,952
Goodwill	16	**116,920**	116,920
Deferred tax assets	29	**–**	240
Total non-current assets		**214,289**	222,953
CURRENT ASSETS			
Properties classified as held for sale	18	**341**	24,459
Inventories	19	**26,450**	25,837
Trade and bills receivables	20	**42,821**	37,556
Prepayments, deposits and other receivables	21	**18,208**	19,221
Financial assets at fair value through profit or loss	22	**170**	333
Restricted cash	23	**3,742**	–
Time deposits with original maturity of more than three months		**185,239**	96,305
Cash and cash equivalents	24	**100,363**	134,382
Total current assets		**377,334**	338,093
CURRENT LIABILITIES			
Trade payables	25	**51,064**	25,812
Other payables and accruals	26	**68,707**	57,599
Interest-bearing bank and other borrowings	27	**264**	11,868
Due to related companies	37(c)	**1,922**	3,607
Due to directors	37(c)	**10,951**	16,541
Tax payable		**542**	7,040
Total current liabilities		**133,450**	122,467
NET CURRENT ASSETS		**243,884**	215,626
TOTAL ASSETS LESS CURRENT LIABILITIES		**458,173**	438,579

Consolidated Statement of Financial Position (Continued)

31 March 2014

	Notes	**2014 HK$'000**	2013 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*27*	**175**	439
Deferred income		**6,297**	–
Deferred tax liabilities	*29*	**6,846**	8,069
Total non-current liabilities		**13,318**	8,508
Net assets		**444,855**	430,071
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*30*	**72,476**	72,476
Reserves	*32(a)*	**372,379**	357,595
Total equity		**444,855**	430,071

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity
Year ended 31 March 2014

		Attributable to owners of the Company								
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 *(note 32(a))*	Employee share-based compensation reserve HK$'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 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	*30*	25	166	–	–	–	–	191	–	191
Disposal of subsidiaries	*33*	–	–	–	–	–	–	–	8,521	8,521
At 31 March 2013 and 1 April 2013		**72,476**	**252,319***	**300***	**4,098***	**26,068***	**74,810***	**430,071**	**–**	**430,071**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**14,908**	**14,908**	**–**	**14,908**
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**(124)**	**–**	**(124)**	**–**	**(124)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(124)**	**14,908**	**14,784**	**–**	**14,784**
At 31 March 2014		**72,476**	**252,319***	**300***	**4,098***	**25,944***	**89,718***	**444,855**	**–**	**444,855**

* *These reserve accounts comprise the consolidated reserves of HK$372,379,000 (2013: HK$357,595,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**15,138**	6,145
Adjustments for:			
Dividend income from listed investments	4	**(21)**	(4)
Gain on disposal of subsidiaries	33	**(151)**	(14,925)
Finance costs	6	**131**	467
Interest income	4	**(5,375)**	(6,859)
Fair value losses/(gains) for financial assets at fair value through profit or loss	5	**18**	(76)
Depreciation	5	**14,878**	11,512
Recognition of prepaid land lease payments	5	**140**	166
Losses/(gains) on disposal of items of property, plant and equipment, net	5	**(68,846)**	26
Amortisation of intangible assets		**4,884**	5,713
Impairment of trade receivables	5	**627**	737
Reversal of impairment of trade receivables	5	**(1,056)**	(114)
Write-down/(write-back) of provision of inventories to net realisable value	5	**3,255**	(582)
		(36,378)	2,206
Increase in inventories		**(3,813)**	(9,303)
Increase in trade and bills receivables		**(4,836)**	(8,562)
Decrease/(increase) in prepayments, deposits and other receivables		**(1,002)**	906
Increase in restricted cash		**(3,742)**	–
Increase/(decrease) in amounts due to related companies		**(1,685)**	2,803
Increase in trade payables		**25,252**	8,384
Increase in other payables and accruals		**20,443**	29,032
Increase in deferred income		**6,457**	6,860
Cash generated from operations		**696**	32,326
PRC withholding tax paid		**(1,250)**	–
PRC profits tax paid		**(6,522)**	(19,822)
Net cash flows from/(used in) operating activities		**(7,076)**	12,504
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**7,358**	3,338
Purchases of items of property, plant and equipment		**(11,747)**	(43,960)
Decrease in deposits for acquisition of items of property, plant and equipment		**–**	3,215
Proceeds from disposal of items of property, plant and equipment		**83,633**	6
Deposits received from sale of properties		**90**	9,356
Proceeds from disposal of financial assets at fair value through profit or loss		**145**	–
Dividend received from listed investments		**21**	4
Disposal of subsidiaries	33	**(72)**	(3,166)
Decrease/(increase) in short term time deposits with original maturity of more than three months		**(88,934)**	54,486
Net cash flows from/(used in) investing activities		**(9,506)**	23,279

Consolidated Statement of Cash Flows (Continued)

Year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares from exercise of share options		–	191
Inception of bank and other borrowings		–	12,000
Repayment of bank and other borrowings		**(11,868)**	(12,455)
Increase/(decrease) in amounts due to directors		**(5,590)**	9,177
Interest paid		**(91)**	(409)
Interest element of finance lease rental payments		**(40)**	(58)
Net cash flows from/(used in) financing activities		**(17,589)**	8,446
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(34,171)**	44,229
Cash and cash equivalents at beginning of year		**134,382**	87,811
Effect of foreign exchange rate changes, net		**152**	2,342
CASH AND CASH EQUIVALENTS AT END OF YEAR		**100,363**	134,382
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**64,105**	28,140
Time deposits with original maturity of less than three months	24	**40,000**	106,242
Less: Restricted cash	23	**(3,742)**	–
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**100,363**	134,382

Statement of Financial Position

31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**7**	14
Investments in subsidiaries	*17*	**152,795**	159,507
Total non-current assets		**152,802**	159,521
CURRENT ASSETS			
Due from subsidiaries	*17*	**48,906**	95,914
Prepayments, deposits and other receivables	*21*	**224**	133
Cash and cash equivalents	*24*	**77**	135
Total current assets		**49,207**	96,182
CURRENT LIABILITIES			
Accruals	*26*	**9,146**	8,980
Due to directors	*37(c)*	**9,988**	14,775
Total current liabilities		**19,134**	23,755
NET CURRENT ASSETS		**30,073**	72,427
Net assets		**182,875**	231,948
EQUITY			
Issued capital	*30*	**72,476**	72,476
Reserves	*32(b)*	**110,399**	159,472
Total equity		**182,875**	231,948

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Notes to Financial Statements

31 March 2014

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 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

Notes to Financial Statements

31 March 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *– Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements. Nevertheless, certain changes in disclosures have been adopted by the Group in compliance with the new and revised HKFRSs.

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 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKFRS 11 Amendments	Amendments to HKFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations*[3]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 16 and HKAS 38 Amendments	Amendments to HKAS 16 and HKAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

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

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as 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 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.

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

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 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.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

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

(b) rights arising from other contractual arrangements; and

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries (Continued)

The results of subsidiaries are included in the Company's statement of profit or loss 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

Fair value measurement

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

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

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

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

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

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

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

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

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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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

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

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 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 statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

Construction in progress represents buildings, plant and machinery and other items of property, plant and equipment under construction or installation, which is stated at cost less any impairment losses, and is 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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, 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.

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 statement of profit or loss. 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 as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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 as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

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 statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

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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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether objective impairment exists individually 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.

The amount of any impairment loss identified 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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 statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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 statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged 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 statement of profit or loss.

Provisions

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

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

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

Government subsidies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 31 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 in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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 statement of profit or loss 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 statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Foreign currencies

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

Notes to Financial Statements

31 March 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 measured. 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 the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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 statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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

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

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

2.5 SIGNIFICANT ACCOUNTING 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 29 to the financial statements.

2.5 SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 March 2014 was HK$116,920,000 (2013: HK$116,920,000). Further details are given in note 16 to the financial statements.

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 of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Allowance on trade and bills 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 have an impact on the carrying value of inventories and write-down of inventories in the periods in which such estimate is changed.

Notes to Financial Statements

31 March 2014

3. OPERATING SEGMENT INFORMATION

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, gain on disposal of items of property, plant and equipment, 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, restricted cash, 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.

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Operating segment

Year ended 31 March 2014

	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	59,676	226,838	286,514
Other revenue	1,427	3,085	4,512
	61,103	229,923	291,026
Segment results	(2,459)	(14,297)	(16,756)
Reconciliation:			
Interest income			5,375
Gain on disposal of items of property, plant and equipment, net			68,846
Dividend income and other unallocated gains			21
Corporate and other unallocated expenses			(42,217)
Finance costs			(131)
Profit before tax			15,138
Segment assets	61,871	240,007	301,878
Reconciliation:			
Financial assets at fair value through profit or loss			170
Restricted cash			3,742
Time deposits with original maturity of more than three months			185,239
Cash and cash equivalents			100,363
Corporate and other unallocated assets			231
Total assets			591,623
Segment liabilities	28,456	91,350	119,806
Reconciliation:			
Deferred tax liabilities			6,846
Tax payable			542
Interest-bearing bank and other borrowings			439
Corporate and other unallocated liabilities			19,135
Total liabilities			146,768
Other segment information:			
Impairment losses recognised in the statement of profit or loss	3,556	454	4,010
Impairment losses reversed in the statement of profit or loss	(788)	(396)	(1,184)
Depreciation and amortisation	3,598	16,304	19,902
Capital expenditure*	3,251	8,496	11,747

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31 March 2014

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Operating segment (Continued)

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:			
Impairment losses recognised in the statement of profit or loss	346	391	737
Impairment losses reversed in the statement of profit or loss	(696)	–	(696)
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)

(b) Geographical information

(i) Revenue from external customers:

	2014 HK$'000	2013 HK$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	**271,534**	258,250
Hong Kong	**11,140**	12,751
Elsewhere in Asia	**3,840**	214
	286,514	271,215

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

(ii) Non-current assets:

	2014 HK$'000	2013 HK$'000
The PRC, excluding Hong Kong	**212,842**	222,115
Hong Kong	**1,447**	598
	214,289	222,713

The non-current asset information above is based on the location of the assets and excludes deferred tax assets.

Information about major customers

No customer of the Group has individually accounted for over 10% of the Group's total revenue for the year ended 31 March 2014 and 2013.

Notes to Financial Statements

31 March 2014

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:

	2014 HK$'000	2013 HK$'000
Revenue		
Sale of goods	**286,514**	271,215
Other income		
Franchise income	**1,381**	9,004
Dividend income from listed investments	**21**	4
Interest income	**5,375**	6,859
Subsidy income	**1,408**	99
Rental income	**1,127**	1,019
Others	**425**	3,050
	9,737	20,035
Gains		
Fair value gains on financial assets at fair value through profit or loss	**–**	76
	9,737	20,111

5. PROFIT BEFORE TAX

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

	Notes	2014 HK$'000	2013 HK$'000
Cost of inventories sold		**168,573**	155,626
Depreciation	*13*	**14,878**	11,512
Recognition of prepaid land lease payments	*14*	**140**	166
Minimum lease payments under operating leases of offices and buildings		**14,670**	11,135
Auditors' remuneration		**1,120**	980
Employee benefit expense (excluding directors' remuneration in note 7):			
Wages and salaries		**40,367**	39,165
Pension scheme contributions		**1,815**	1,135
		42,182	40,300
Write-down/(write-back) of provision of inventories to net realisable value*		**3,255**	(582)
Foreign exchange differences, net#		**52**	684
Impairment of trade receivables#		**627**	737
Reversal of impairment of trade receivables#		**(1,056)**	(114)
Losses/(gains) on disposal of items of property, plant and equipment, net		**(68,846)**	26
Fair value losses/(gains) on financial assets at fair value through profit or loss		**18**	(76)
Subsidy income^		**(1,408)**	(99)

* *Included in the "Cost of sales" on the face of the consolidated statement of profit or loss.*

\# *Included in the "Administrative expenses" on the face of the consolidated statement of profit of loss.*

^ *Various government subsidies have been received by enterprises in Yunnan province, the PRC. There are no unfulfilled conditions or contingencies related to these subsidies.*

Notes to Financial Statements

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6. FINANCE COSTS

	2014 **HK$'000**	2013 HK$'000
Interest on bank loans wholly repayable within five years	**91**	409
Interest on finance leases	**40**	58
	131	467

The analysis shows the finance costs of bank borrowings, including a term loan which contained a repayment on-demand clause, in accordance with the agreed scheduled repayment dates set out in the loan agreement. For the year ended 31 March 2014, the interest on a bank loan which contained a repayment on-demand clause amounted to HK$91,000 (2013: HK$155,000).

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 the Hong Kong Companies Ordinance, is as follows:

	Group	
	2014 **HK$'000**	2013 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**288**	270
	288	270
Other emoluments:		
Salaries, allowances and benefits in kind	**4,661**	3,760
Discretionary bonus*	**25,125**	–
Pension scheme contributions	**60**	60
	29,846	3,820
	30,134	4,090

* *Certain executive directors of the Company are entitled to a one-off special bonus for their contribution on the sale of the Group's property.*

7. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2014 HK$'000	2013 HK$'000
Mr. Guo Guoqing	72	66
Mr. Lam Siu Hung	72	66
Mr. Kwok Hok Lun	72	66
Dr. Liu Zhonghua	72	72
	288	270

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

(b) Executive directors

	Salaries, allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 March 2014				
Executive directors:				
Dr. Chiu Ka Leung	2,060	3,420	15	5,495
Ms. Yeh Shu Ping	1,717	21,705	15	23,437
Mr. Jiao Shaoliang	624	–	15	639
Dr. Lu Pingguo	260	–	15	275
	4,661	25,125	60	29,846

Notes to Financial Statements

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7. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors (Continued)

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 March 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

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 (2013: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2013: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2014 **HK$'000**	2013 HK$'000
Salaries, allowances and benefits in kind	**3,212**	3,056
Discretionary bonus	**1,000**	–
Pension scheme contributions	**44**	44
	4,256	3,100

8. FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	Number of employees	
	2014	2013
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	3	3

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the current year. No provision for Hong Kong profits tax had been made in prior years as the Group did not generate any assessable profits arising in Hong Kong. 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.

	2014	2013
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**461**	–
Current – Mainland China		
Charge for the year	**2,619**	5,278
Underprovision/(overprovision) in prior years	**(1,869)**	1,166
Deferred tax *(note 29)*	**(981)**	(1,221)
Total tax charge for the year	**230**	5,223

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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 the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2014

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	26,259		(11,121)		15,138	
Tax at the statutory or applicable tax rate	4,333	16.5	(2,778)	25.0	1,555	10.3
Preferential tax rates	–	–	(207)	1.9	(207)	(1.4)
Adjustments in respect of current tax of previous periods	–	–	(1,869)	16.8	(1,869)	(12.3)
Income not subject to tax	(10,767)	(41.0)	(65)	0.6	(10,832)	(71.6)
Expenses not deductible for tax	4	0.0	1,909	(17.2)	1,913	12.6
Tax losses not recognised	7,106	27.1	2,670	(24.0)	9,776	64.6
Tax loss utilised from previous periods	(87)	(0.3)	–	–	(87)	(0.6)
Others	(128)	(0.5)	109	(1.0)	(19)	(0.1)
Tax at the Group's effective rate	461	1.8	(231)	2.1	230	1.5

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

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:

During the year ended 31 March 2013, 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 2014 includes a loss of HK$37,344,000 (2013: HK$13,558,000) which has been dealt with in the financial statements of the Company *(note 32(b))*.

11. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2014 (2013: 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$14,908,000 (2013: HK$6,397,000), and the weighted average number of ordinary shares of 1,449,520,000 (2013: 1,449,358,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 March 2014 and 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.

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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 2014									
At 1 April 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
At 1 April 2013, net of accumulated depreciation	21,441	15,775	6,272	2,197	2,944	1,580	2,085	17,930	70,224
Additions	265	1,765	4,503	34	113	454	–	4,613	11,747
Disposal	–	–	(3)	(22)	–	–	–	–	(25)
Depreciation provided during the year	(1,773)	(8,469)	(1,890)	(33)	(1,663)	(1,050)	–	–	(14,878)
Transfers	–	19,841	–	–	–	–	–	(19,841)	–
Exchange realignment	(17)	(225)	(235)	(6)	19	1	(4)	211	(256)
At 31 March 2014, net of accumulated depreciation	19,916	28,687	8,647	2,170	1,413	985	2,081	2,913	66,812
At 31 March 2014:									
Cost	34,945	46,175	15,070	4,046	15,203	5,818	2,081	2,913	126,251
Accumulated depreciation	(15,029)	(17,488)	(6,423)	(1,876)	(13,790)	(4,833)	–	–	(59,439)
Net carrying amount	19,916	28,687	8,647	2,170	1,413	985	2,081	2,913	66,812

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$'000	Construction in progress HK$'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 33)*	–	(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

* *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 or impairment is provided for the current and prior years.*

The Group's land and buildings included in property, plant and equipment with a net carrying amount of HK$19,916,000 (2013: HK$21,441,000) are situated outside Hong Kong and are held under medium term leases.

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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 amount of motor vehicles at 31 March 2014 amounted to HK$36,000 (2013: HK$366,000).

During the year ended 31 March 2013, a subsidiary of the Group entered into a sale and purchase agreement with an independent third party for the disposal of its properties and accordingly, they were classified as properties 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 2014				
At 1 April 2013:				
Cost	17	14	29	60
Accumulated depreciation	(17)	(10)	(19)	(46)
Net carrying amount	–	4	10	14
At 1 April 2013, net of accumulated depreciation	–	4	10	14
Additions	–	2	–	2
Depreciation provided during the year	–	(3)	(6)	(9)
At 31 March 2014, net of accumulated depreciation	–	3	4	7
At 31 March 2014:				
Cost	17	16	29	62
Accumulated depreciation	(17)	(13)	(25)	(55)
Net carrying amount	–	3	4	7

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 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

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14. PREPAID LAND LEASE PAYMENTS

Group

	2014 HK$'000	2013 HK$'000
Carrying amount at beginning of year	5,783	5,872
Recognised during the year	(140)	(166)
Exchange realignment	(14)	77
Carrying amount at end of year	5,629	5,783
Current portion included in prepayments, deposits and other receivables	(140)	(166)
Non-current portion	5,489	5,617

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

15. INTANGIBLE ASSETS

Group

	Trademarks and right to the use of trademarks HK$'000	Exclusive purchase right HK$'000	Total HK$'000
31 March 2014			
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
Cost at 1 April 2013, net of accumulated amortisation	7,799	22,153	29,952
Amortisation provided during the year	(1,272)	(3,612)	(4,884)
At 31 March 2014	6,527	18,541	25,068
At 31 March 2014:			
Cost	12,461	35,397	47,858
Accumulated amortisation	(5,934)	(16,856)	(22,790)
Net carrying amount	6,527	18,541	25,068

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 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 33)*	(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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16. GOODWILL

Group

	HK$'000
Cost and net carrying amount at 31 March 2013 and 2014	**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% and cash flows beyond the five-year period are extrapolated using a growth rate of 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 2014. 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	
	2014	2013
	HK$'000	HK$'000
Unlisted shares, at cost	**207,794**	207,794
Less: Return of capital *(note)*	**(25,000)**	(25,000)
Less: Impairment#	**(29,999)**	(23,287)
	152,795	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.

An impairment was recognised for certain unlisted investments with a carrying amount of HK$29,999,000 (2013: HK$29,999,000) because the relevant subsidiaries continued to record losses.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company 2014	2013	Principal activities
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands	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	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 (Yunnan Long Far Real Estate Company Limited)**#@	The PRC/ Mainland China	RMB10,000,000	**–**	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 Islands	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 2014	2013	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 and other tea-related products
雲南龍潤實業有限公司 (Yunnan Longrun Enterprise Company Limited)**@	The PRC/ Mainland China	RMB10,000,000	**100**	100	Investment holding
北京龍潤十八號餐飲管理有限公司 (Beijing Longrun No.18 CanYin Management Company Limited)**@	The PRC/ Mainland China	RMB18,600,000	**100**	100	Operating of clubhouse and trading
Longrun Tea Online Shopping Company Limited	Hong Kong	HK$1	**100**	100	Trading of tea products
雲南龍潤十八號餐飲有限公司 (Yunnan Longrun No.18 CanYin Company Limited)**^@	The PRC/ Mainland China	RMB1,000,000	**–**	100	Dormant
雲南有你茶餐有限公司 (Yunnan Yunitea Company Limited)**@	The PRC/ Mainland China	RMB8,000,000	**100**	–	Operating of tea shop

* *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.*

De-registered during the year.

^ *Disposed of during the year.*

@ *Official names of these entities are in Chinese. The English translation of the names is for identification purpose only.*

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 2014 HK$'000	2013 HK$'000
Carrying amount at beginning of year	**24,459**	–
Transfer from property, plant and equipment *(note 13)*	**–**	24,459
Disposals	**(24,118)**	–
Carrying amount at end of year	**341**	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 was occupied by the Group as office, warehouse and packaging facility for trading of pharmaceutical products mainly in Hong Kong. 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. The disposal of the property was completed on 18 July 2013.

On 7 March 2014, a subsidiary of the Group entered into a sale and purchase agreement with an independent third party for the disposal of the two remaining car parks located at Lower Ground Floor, Ever Gain Plaza, 88 Container Port Road, Kwai Chung, New Territories, Hong Kong. The disposal of the car parks was completed on 22 April 2014. As at 31 March 2014, the car parks were classified as properties held for sale.

At 31 March 2014, the Group's properties classified as held for sale with carrying amount of HK$341,000 (2013: HK$24,459,000) are situated in Hong Kong and are held under medium leases.

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 27)*.

19. INVENTORIES

	Group 2014 HK$'000	2013 HK$'000
Trading goods	**3,075**	3,603
Finished goods	**10,285**	9,433
Work in progress	**5,528**	5,033
Raw materials	**4,968**	5,111
Packaging materials	**2,594**	2,657
	26,450	25,837

20. TRADE AND BILLS RECEIVABLES

	Group 2014 HK$'000	2013 HK$'000
Trade receivables	**42,204**	38,721
Bills receivable	**1,353**	–
	43,557	38,721
Impairment	**(736)**	(1,165)
	42,821	37,556

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 and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2014 HK$'000	2013 HK$'000
Within 1 month	**38,249**	24,898
2 to 3 months	**2,830**	10,986
4 to 12 months	**1,719**	1,428
Over 12 months	**23**	244
	42,821	37,556

An aged analysis of the trade and bills 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:

	2014 HK$'000	2013 HK$'000
Current (neither past due nor impaired)	**40,220**	35,539
Within 1 to 3 months overdue	**1,463**	994
Within 4 to 12 months overdue	**1,115**	868
Over 12 months overdue	**23**	155
	42,821	37,556

20. TRADE AND BILLS RECEIVABLES (Continued)

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

	Group	
	2014	2013
	HK$'000	HK$'000
At beginning of year	**1,165**	542
Impairment loss recognised *(note 5)*	**627**	737
Impairment loss reversed *(note 5)*	**(1,056)**	(114)
	736	1,165

Included in the above provision for impairment of the trade receivables is a provision for individually impaired trade receivables of HK$736,000 (2013: HK$1,165,000) with a carrying amount before provision of HK$736,000 (2013: HK$1,290,000).

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	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**4,334**	5,314	**–**	4
Deposits and other receivables	**13,874**	13,907	**224**	129
	18,208	19,221	**224**	133

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	
	2014	2013
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**170**	333

The above equity investments at 31 March 2014 and 2013 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

23. RESTRICTED CASH

As at 31 March 2014, an amount of HK$3,742,000 deposited with a bank was restricted for use by a local court in the PRC in relation to a legal proceeding against one of the Group's customers for a dispute on a sale contract. The restricted cash was subsequently released by the court after the end of the reporting period. In the opinion of the directors of the Company, the Group has made appropriate provision relating to the legal proceeding in the financial statements.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**64,105**	28,140	**77**	135
Time deposits with original maturity of less than three months	**40,000**	106,242	**–**	–
	104,105	134,282	**77**	135
Less: Restricted cash *(note 23)*	**(3,742)**	–	**–**	–
Cash and cash equivalents	**100,363**	134,282	**77**	135

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$41,174,000 (2013: HK$76,320,000). 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.

25. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled on 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	
	2014	2013
	HK$'000	HK$'000
Current	**41,175**	413
Within 1 to 3 months overdue	**7,281**	17,750
Within 4 to 12 months overdue	**1,600**	6,009
Over 12 months overdue	**1,008**	1,640
	51,064	25,812

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

	2014	2013
	HK$'000	HK$'000
Yunnan Longrun Tea Development Company Limited@ ("YLRT") 雲南龍潤茶業發展有限公司	**1,458**	2,412
Yunnan Longrun Tea Group Limited@ ("LRTG") 雲南龍潤茶業集團有限公司	**3,014**	10,791
Fengqing Longrun Tea Company Limited@ ("FLRT") 鳳慶龍潤茶業有限公司	**22,879**	824
Changning Longrun Tea Company Limited@ ("CLRT") 昌寧縣龍潤茶業有限公司	**7,165**	798
	34,516	14,825

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.

@ *Official names of these entities are in Chinese. The English translation of the names is for identification purpose only.*

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26. OTHER PAYABLES AND ACCRUALS

	Group 2014 HK$'000	Group 2013 HK$'000	Company 2014 HK$'000	Company 2013 HK$'000
Receipts in advance	**41,644**	37,450	**–**	–
Accruals	**24,585**	18,001	**9,146**	8,980
Other payables	**2,478**	2,148	**–**	–
	68,707	57,599	**9,146**	8,980

The other payables are non-interest-bearing and have an average term of three months.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	**2014**			2013		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loan repayable on demand – secured *(Note)*	**–**	**–**	**–**	2.4	2014/ on demand	11,623
Finance lease payable *(note 28)*	**2.5 – 4.5**	**2015**	**264**	2.5 – 4.5	2014	245
			264			11,868
Non-current						
Finance lease payable *(note 28)*	**2.5 – 4.5**	**2015**	**175**	2.5 – 4.5	2015	439
			439			12,307

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

	Group 2014 HK$'000	2013 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand *(Note)*	–	11,623
Other borrowings repayable:		
Within one year	**264**	245
In the second year	**175**	264
In the third to fifth years, inclusive	–	175
	439	684
	439	12,307

Note: In accordance with HK Interpretation 5, the Group's bank loan of HK$11,623,000 as at 31 March 2013 containing a repayment on-demand clause had been classified as a current liability. For the purpose of the above analysis, the loan was included within current interest-bearing bank and other borrowings and analysed into bank loans repayable within one year or on demand.

Based on the maturity terms of the loan, the amounts repayable in respect of the loan are analysed into:

	Group 2014 HK$'000	2013 HK$'000
Within one year	–	11,623

(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 *(note 18)*. The same property as at 31 March 2013 with an aggregate net carrying amount of HK$24,459,000 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.

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28. FINANCE LEASE PAYABLES

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 2014, the total future minimum lease payments under finance leases and its present values were as follows:

Group

	Minimum lease payments 2014 HK$'000	Minimum lease payments 2013 HK$'000	**Present value of minimum lease payments 2014 HK$'000**	Present value of minimum lease payments 2013 HK$'000
Amounts payable:				
Within one year	**285**	285	**264**	245
In the second year	**180**	285	**175**	264
In the third to fifth years, inclusive	**–**	180	**–**	175
Total minimum finance lease payments	**465**	750	**439**	684
Future finance charges	**(26)**	(66)		
Total net finance lease payables	**439**	684		
Portion classified as current liabilities *(note 27)*	**(264)**	(245)		
Non-current portion *(note 27)*	**175**	439		

29. 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 2012	9,282	2,500	11,782
Deferred tax credited to the statement of profit or loss during the year *(note 9)*	(1,221)	–	(1,221)
Transfer to current tax	–	(2,500)	(2,500)
Exchange realignment	8	–	8
At 31 March 2013 and 1 April 2013	**8,069**	**–**	**8,069**
Deferred tax credited to the statement of profit or loss during the year *(note 9)*	**(1,221)**	**–**	**(1,221)**
Exchange realignment	**(2)**	**–**	**(2)**
Gross deferred tax liabilities at 31 March 2014	**6,846**	**–**	**6,846**

Deferred tax assets

Group	**HK$'000**
Gross deferred tax assets at 1 April 2012, 31 March 2013 and 1 April 2013	**240**
Deferred tax charged to the statement of profit or loss during the year *(note 9)*	**(240)**
Gross deferred tax assets at 31 March 2014	**–**

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**	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Tax losses	**156,627**	99,071	**91,360**	50,410
Deductible temporary differences	**766**	117	**–**	–
	157,393	99,188	**91,360**	50,410

29. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

The Group has tax losses arising in Hong Kong of HK$140,585,000 (2013: HK$93,711,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of HK$16,042,000 (2013: HK$5,360,000) that will expire in four to five years for offsetting against future taxable profits.

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 5%. 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$150,062,000 at 31 March 2014 (2013: HK$147,762,000).

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

30. SHARE CAPITAL

	2014 **HK$'000**	2013 HK$'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 (2013: 1,449,520,000) ordinary shares of HK$0.05 each	**72,476**	72,476

30. SHARE CAPITAL (Continued)

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 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 April 2013 and 31 March 2014	**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 31 to the financial statements.

31. EQUITY COMPENSATION PLANS

(a) Share Option Scheme

The Company operates a share option scheme adopted by the Company on 17 August 2012 with a resolution passed at the annual general meeting (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The 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 Scheme is 144,952,000, representing 10% of the shares of the Company in issue as at the date of adoption of the Scheme and the date of approval of these financial statements.

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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31. 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 2014 and 2013, no share options were outstanding under the Scheme. No share options were outstanding, granted, exercised or lapsed under the Scheme during the year.

The following share options were outstanding under the Company's share option scheme adopted in 2002 during the year ended 31 March 2013:

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

The weighted average share price at the date of exercise for share options exercised during the year ended 31 March 2013 was HK$0.435 per share.

31. EQUITY COMPENSATION PLANS (Continued)

(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:

	2014		2013	
	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

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:

2014 and 2013

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.*

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

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32. 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 36 of the financial statements.

The Group's contributed surplus represents the excess of the nominal 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.

(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 2012		252,153	46,999	4,098	(130,386)	172,864
Loss for the year and total comprehensive income for the year		–	–	–	(13,558)	(13,558)
Exercise of share options	*30*	166	–	–	–	166
At 31 March 2013 and 1 April 2013		**252,319**	**46,999**	**4,098**	**(143,944)**	**159,472**
Loss for the year and total comprehensive income for the year		**–**	**–**	**–**	**(49,073)**	**(49,073)**
At 31 March 2014		**252,319**	**46,999**	**4,098**	**(193,017)**	**110,399**

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.

33. DISPOSAL OF SUBSIDIARIES

	2014 HK$'000	2013 HK$'000
Net assets/(liabilities) disposed of:		
Property, plant and equipment	–	6,100
Intangible assets	–	3,040
Inventories	–	635
Trade receivables	–	131
Prepayments and other receivables	**6**	5,897
Cash and bank balances	**1,446**	3,666
Trade payables	–	(44)
Other payables and accruals	**(229)**	(42,357)
Due to related companies	–	(14)
Non-controlling interests	–	8,521
	1,223	(14,425)
Gain on disposal of subsidiaries	**151**	14,925
	1,374	500
Satisfied by:		
Cash	**1,374**	500

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2014 HK$'000	2013 HK$'000
Cash consideration	**1,374**	500
Cash and bank balances disposed of	**(1,446)**	(3,666)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(72)**	(3,166)

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 granted to the Company's subsidiary.

As at 31 March 2014, the Company had no significant contingent liabilities.

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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 ten 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 2014, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2014 **HK$'000**	2013 HK$'000
Within one year	**1,260**	23
In the second to fifth years, inclusive	**8,312**	6,364
	9,572	6,387

(b) As lessee

The Group leases certain of its office buildings in the PRC and retail shops and offices in Hong Kong under operating lease arrangements. Leases for properties are negotiated for terms ranging from one year to twenty years.

At 31 March 2014, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2014 **HK$'000**	2013 HK$'000	**2014** **HK$'000**	2013 HK$'000
Within one year	**14,572**	9,889	**436**	499
In the second to fifth years, inclusive	**25,425**	37,711	**–**	–
After five years	**64,134**	53,961	**–**	–
	104,131	101,561	**436**	499

36. COMMITMENTS

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

	2014 HK$'000	2013 HK$'000
Contracted, but not provided for:		
Leasehold improvements	**78**	1,413
Authorised, but not contracted for:		
Land and buildings	**24,948**	–
	25,026	1,413

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	2014 HK$'000	2013 HK$'000
Purchases of tea products from:			
CLRT	*(ii), (iii)*	**35,839**	30,726
FLRT	*(ii), (iii)*	**25,312**	18,130
Yunxian Tianlong Eco-Tea Company Limited ("YTET")	*(ii), (iii)*	**–**	10,147
YLRT	*(ii), (iii)*	**4,740**	3,372
LRTG	*(i), (iii)*	**67,923**	41,242
		133,814	103,617

Notes:

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

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

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

The above transactions in respect of the purchases of tea products and other food products entered into by the Group during the year ended 31 March 2014 also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transaction with a related party

During the prior 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, a director of the Company, at a cash consideration of HK$500,000. The disposal was completed in early January 2013. Further details of the assets and liabilities disposed of are set out in note 33 to the financial statements.

The above transaction in respect of the disposal of subsidiaries entered into by the Group during the year ended 31 March 2013 also constituted connected transactions as defined in Chapter 14A of the Listing Rules.

(c) Outstanding balances with related parties

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 companies, 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

	2014 HK$'000	2013 HK$'000
Short term employee benefits	**37,816**	10,284
Post-employment benefits	**188**	188
	38,004	10,472

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 2014 and 2013 are loans and receivables and financial liabilities stated at amortised cost, respectively.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's and the Company's financial instruments as at 31 March 2014 and 2013 approximate to their fair values.

Fair value hierarchy

Management has assessed that the fair values of cash and cash equivalents, financial assets at fair value through profit or loss, trade and bills receivables, trade payables, current portion of financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due to related companies, amounts due to directors and current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables as at 31 March 2014 was assessed to be insignificant.

The fair values of the non-current portion of interest-bearing bank and other borrowings (2013: interest-bearing bank and other borrowings) approximate to their carrying amounts as at 31 March 2014 and 2013.

The fair values of listed equity investments are based on quoted market prices.

Assets measured at fair value:

Group

As at 31 March 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	170	–	–	170

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39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

Group (Continued)

As at 31 March 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	333	–	–	333

During the years ended 31 March 2014 and 2013, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The Group did not have any financial liabilities measured at fair value as at 31 March 2014 and 2013.

The Company did not have any financial assets and financial liabilities measured at fair value as at 31 March 2014 and 2013.

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 and bills receivables and trade payables, which arise directly from its operations.

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to certain trade and bills receivables, trade payables and certain cash and cash equivalents in currencies other than the functional currency of the Group's operating subsidiaries.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Renminbi exchange rate, with all other variables held constant, of the Group's profit before tax.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$'000
2014		
If Hong Kong dollar weakens against Renminbi	**2.67**	**5,808**
If Hong Kong dollar strengthens against Renminbi	**(2.67)**	**(5,808)**
2013		
If Hong Kong dollar weakens against Renminbi	2.74	6,132
If Hong Kong dollar strengthens against Renminbi	(2.74)	(6,132)

Credit risk

The carrying amount of trade and bills 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 and bills receivables. The Group has a significant concentration of credit risk in relation to trade and bills receivables as the trade and bills receivables due from the five largest customers accounted for 18.3% (2013: 51.2%) of the Group's trade and bills 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 and bills receivables is based upon a review of the expected collectibility of all trade and bills receivables.

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

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills 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.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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

		2014	
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**285**	**180**	**465**
Trade payables	**51,064**	**–**	**51,064**
Other payables and accruals	**27,063**	**–**	**27,063**
Due to related companies	**1,922**	**–**	**1,922**
Due to directors	**10,951**	**–**	**10,951**
	91,285	**180**	**91,465**

		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

Note: As at 31 March 2013, the loan agreement contained a repayment on-demand clause giving the bank the unconditional right to call in the loan with principal amounting to HK$11,623,000 at any time and therefore, for the purpose of the above maturity profile, the total amount was classified as "on demand".

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company

	On demand or within 1 year	
	2014	2013
	HK$'000	HK$'000
Due to directors	**9,988**	14,775
Accruals	**9,146**	8,980
	19,134	23,755

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2014 and 2013.

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

	2014	2013
	HK$'000	HK$'000
Total liabilities	**146,768**	130,975
Total equity	**444,855**	430,071
Gearing ratio	**33.0%**	30.5%

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June 2014.

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				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**286,514**	271,215	344,258	394,955	160,121
PROFIT/(LOSS) BEFORE TAX	**15,138**	6,145	60,891	84,126	(18,886)
Income tax expense	**(230)**	(5,223)	(28,294)	(25,347)	(11,728)
PROFIT/(LOSS) FOR THE YEAR	**14,908**	922	32,597	58,779	(30,614)
Attributable to:					
Owners of the Company	**14,908**	6,397	36,028	59,477	(30,614)
Non-controlling interests	**–**	(5,475)	(3,431)	(698)	–
	14,908	922	32,597	58,779	(30,614)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**591,623**	561,046	539,931	487,391	362,105
TOTAL LIABILITIES	**(146,768)**	(130,975)	(122,824)	(111,326)	(58,463)
NON-CONTROLLING INTERESTS	**–**	–	3,177	21	–
	444,855	430,071	420,284	376,086	303,642