LongRun
龍潤

LONGRUN TEA GROUP COMPANY LIMITED

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

ANNUAL REPORT 2016

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

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 2016.

The economic environment, both internationally and domestically, continued to exhibit additional uncertainty for the already weak consumer market in The People's Republic of China (the "PRC"). The discouragement of excessive hospitality such as gifting by the PRC government, have continued to affect the businesses of the Group. Despite the tough business environment in the PRC, the Group continues to promote Chinese tea and leading innovations in the PRC tea industry.

Looking forward, in addition to expanding the distribution network, the Group intends to explore new sales channels or platform to reach different segments of customers and to promote brand awareness, which will benefit the Group in both medium and long term. The Group intended to take advantage of the business opportunity presented from the direct selling platform by deploying more resources in product development so as to further expand the product portfolio to be distributed through such platform. The Group has also been seeking to expand its distribution network by distributing its tea products in tea exchanges in the PRC. In addition, the Group will continue to implement cost effective strategies, and remains cautiously optimistic in the year ahead.

Appreciation

I would like to take this opportunity to express my deepest appreciation 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 trust and support. With our dedicated and experienced management team working, 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, 17 June 2016

FINANCIAL RESULTS

For the year ended 31 March 2016, the revenue of the Group decreased by approximately 15.1% to approximately HK$217,659,000 from approximately HK$256,439,000 for the year ended 31 March 2015. The gross profit of the Group decreased by approximately 23.8% to approximately HK$75,789,000 for the year ended 31 March 2016 from approximately HK$99,460,000 for the year ended 31 March 2015.

Selling and distribution expenses decreased by approximately 37.2% from approximately HK$94,233,000 for the year ended 31 March 2015 to approximately HK$59,138,000 for the year ended 31 March 2016. Administrative expenses decreased by approximately 23.4% from approximately HK$42,366,000 for the year ended 31 March 2015 to approximately HK$32,438,000 for the year ended 31 March 2016. The decrease in selling and distribution expenses and administrative expenses were mainly attributable to (i) the decrease in revenue; (ii) the decrease in salaries resulted from the dropping in headcount; (iii) the decrease in depreciation and amortisation resulted from the absence of the impairment of goodwill, intangible asset and property, plant and equipment recorded in prior year; and (iv) the disposal of subsidiaries.

Other expenses decreased to approximately HK$6,501,000 for the year ended 31 March 2016 from approximately HK$175,466,000 for the year ended 31 March 2015. The substantial decrease was mainly due to the absence of impairment of goodwill, intangible assets and property, plant and equipment recorded in 2015.

For the year ended 31 March 2016, a one-off gain on disposal of subsidiaries in the amount of approximately HK$18,811,000 was recorded, which was mainly derived from the disposal of 雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Company Limited) ("YNLF").

Profit attributable to owners of the Company for the year ended 31 March 2016 was approximately HK$2,414,000 (the year ended 31 March 2015: loss of HK$203,877,000). The profit for the year under review as compared to a loss for prior year was mainly due to (i) the absence of the impairment of goodwill, intangible assets and property, plant and equipment of approximately HK$175,466,000 in 2016 as compared to 2015; and (ii) a one-off gain on disposal of subsidiaries, before tax and expenses, of approximately HK$18,811,000 for the year ended 31 March 2016.

Basic earnings per share was HK0.17 cents for the year ended 31 March 2016 against basic loss per share HK14.07 cents for the year ended 31 March 2015.

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.

The continued poor spending sentiment and confidence of consumer has still been affecting the consumer market in the PRC. In April 2014, the Group has entered into a sales agreement with 理想科技集團有限公司 (Ideality Technology Group Company Limited) ("Ideality Group"), a company effectively owned as to 85.5% by Dr. Chiu Ka Leung and as to 14.5% by Mr. Jiao Shaoliang, both are executive directors of the Company. The Ideality Group 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. During the year under review, sales to the Ideality Group amounted to approximately HK$27,442,000 (2015: HK$17,564,000).

Revenue for the year from tea and other food products businesses was approximately HK$168,814,000 (2015: HK$189,173,000), accounting for approximately 77.6% (2015: 73.8%) of the Group's total revenue.

Tea Shops

Our traditional and convenient tea products i.e. tea cake, loose tea leaves, tea gift set, 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 centers and office buildings, and primarily sell and distribute convenient tea products for office use, such as convenient tea cups, instance tea essence and tea bags. As at 31 March 2016, the Group managed a network comprising a total of over 500 self-owned and franchised tea shops primarily in the PRC.

Mega Retail Outlet Targeting Tourists

Besides the traditional tea shops, the Group also focuses on the tourists market. The Group has been operating mega retail outlets in Yunnan Province 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-go 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

Direct Selling

The Group started to distribute its tea products through the direct selling platforms by entering into a sales agreement in 2014 with the Ideality Group, which 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. The Group's revenue generated through direct selling is promising for the year ended 31 March 2016. The Group intended to take advantage of such business opportunity by deploying more resources in product development so as to further expand its product portfolio to be distributed through the direct selling platform. It is expected that the growth of revenue generated through direct selling shall remain robust.

Healthcare and Pharmaceutical Business

During the year under review, revenue from healthcare and pharmaceutical business was approximately HK$48,845,000 (2015: HK$67,266,000), accounting for approximately 22.4% (2015: 26.2%) of the Group's total revenue. The Group's main revenue driver in this division was "Chen Xiang Lu Bai Lu Pian"（陳香露百露片）, a "Yanta Pai"（雁塔牌）branded Chinese gastrointestinal medicine, which generated 8.2% (2015: 6.5%) of the total revenue during the year.

On 5 October 2015, the Group entered into an agreement to dispose of 100% equity interest in YNLF, the Company's indirect wholly-owned subsidiary principally engaging in the manufacture and distribution of pharmaceutical products in the PRC, at a total consideration of HK$52,000,000. Completion took place in November 2015.

Management Discussion and Analysis

PROSPECTS

The economic development in the PRC has been gradually decelerating in recent years and such trend is expected to persist in the near future. According to the National Bureau of Statistics of China, the gross domestic product of the PRC during the fourth quarter of 2015 recorded a quarter-on-quarter growth of approximately 1.6%. Such quarter-on-quarter growth rate represents the weakest growth since the first quarter of 2014. On a full year basis, the gross domestic product of the PRC in 2015 recorded a year-on-year growth of approximately 6.9%, which is slightly lower than the target rate predetermined by the PRC government of 7.0% and the actual growth rate of approximately 7.3% in 2014.

According to the National Bureau of Statistics of China, the annual growth rate in the total retail sales of consumer goods in the PRC has been declining since the high level of approximately 18.3% in 2010, showing a continuous slowdown in the consumer market activities in the PRC. It is expected that the economic slowdown in the PRC would continue and the prospect of the consumer market in the PRC would remain uncertain in the future.

Given the difficulties in the consumer markets in the PRC, the Group will continue to dedicate more efforts to explore more selling platforms with good potentials so as to diversify its distribution channel and strengthen its distribution capabilities. The Board considers the cooperating with the Ideality Group to be a major step to diversify into direct selling platform. The Group is of the view that the direct selling channel in the PRC is of great growth potential. In addition, the Group recently started to distribute its products through the Tea Exchange, being an online trading platform which enables individuals and corporations to participate in trading of tea products in the PRC.

Looking ahead, it is likely that the consumer market in China will continue to face uncertainties and remain challenging. Despite the uncertainties, the Group will continue to focus on brand building and distribution channel development. The Group will further (1) expand its franchise network; and (2) cooperate with the Ideality Group with a view to utilizing its direct selling capabilities to distribute the Group's products.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2016, the Group had current assets of HK$320,920,000 (2015: HK$334,714,000) and cash and bank balances (including cash and cash equivalents and time deposits with original maturity of more than three months) of HK$209,391,000 (2015: HK$246,989,000). The Group's current liabilities as at 31 March 2016 were HK$93,295,000 (2015: HK$113,093,000).

As at 31 March 2016, total equity was HK$226,152,000 (2015: HK$241,538,000). The Group had finance lease payables of HK$749,000 as at 31 March 2016 (2015: HK$175,000). The gearing ratio as at 31 March 2016, being the ratio of total liabilities to total equity, was 43% (2015: 50%).

EMPLOYEES

As at 31 March 2016, the Group had 413 employees (2015: 784 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 2016, the Group did not have any significant contingent liabilities.

EXCHANGE RISK

The Group's revenues and costs are mainly denominated in Renminbi. Since the Group mostly transacted using the same currency as the purchase currency, the Group does not foresee substantial risks from foreign currency exposure arising from Renminbi in this regard.

PLEDGE OF THE GROUP'S ASSETS

As at 31 March 2016, there was no pledge of the Group's assets.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Chiu Ka Leung, aged 52, 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 69, 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 42, 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 44, 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).

Independent Non-executive Directors

Mr. Lam Siu Hung, aged 57, 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 53, 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營銷研究中心 (Marketing Research Center of China of Renmin University of China). His teaching and research interests are in the areas of marketing management.

Currently, Mr. Guo is an independent non-executive director of Livzon Pharmaceutical Group Inc. (stock code: 1513), a company listed on Hong Kong Stock Exchange; and an independent director of Wangfujing Group Co., Ltd. (name changed from Beijing Wangfujing Department Store (Group) Co., Ltd. on 4 February 2016, stock code: 600859), a company listed on the Shanghai Stock Exchange. Also, he has been re-designated from the office of independent director to director of Gree Real Estate Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600185) on 30 June 2015. Besides, Mr. Guo resigned as the chairman of the board of supervisors of Shenzhen Takfook Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300134) on 20 April 2016.

Mr. Kwok Hok Lun, aged 40, 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. Mr. Kwok 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 also has extensive experience in giving legal advice to multinational clients in Hong Kong.

Dr. Liu Zhonghua, aged 51, 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, published papers in many academic journals and acted as 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. Besides, Dr. Liu resigned as an independent director of Hunan Hansen Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002412) in May 2014.

Senior Management

Mr. Han Ping, Joseph, aged 46, 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 he also 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 47, 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 47, 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 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 of Hong Kong Limited (the "Stock Exchange").

The Board considers that during the year ended 31 March 2016, 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.

A2. Board Composition

The composition of the Board as at 31 March 2016 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 2016, 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 in the section headed "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 with the Company for a term of 2 years. The appointment may be terminated by either party by given 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 "2016 AGM"), Dr. Chiu Ka Leung, Mr. Lam Siu Hung and Mr. Guo Guoqing shall retire by rotation pursuant to the Articles provisions stated in the foregoing paragraph. All the above three retiring directors, being eligible, will offer themselves for re-election at the 2016 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 2016, 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.

– Mr. Lam Siu Hung and Mr. Kwok Hok Lun attended seminars, which are relevant to their duties and responsibilities, organized by professional firms/institutions.

A6. Directors' Attendance Records

The attendance records of each director at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 March 2016 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	6/6	N/A	1/1	1/1	0/1	0/1
Ms. Yeh Shu Ping	6/6	N/A	1/1	N/A	0/1	0/1
Mr. Jiao Shaoliang	6/6	N/A	N/A	N/A	0/1	0/1
Dr. Lu Pingguo	6/6	N/A	N/A	N/A	1/1	1/1
Independent non-executive directors:						
Mr. Lam Siu Hung	6/6	2/2	1/1	1/1	0/1	1/1
Mr. Guo Guoqing	2/6	0/2	0/1	0/1	0/1	0/1
Mr. Kwok Hok Lun	2/6	2/2	1/1	1/1	0/1	0/1
Dr. Liu Zhonghua	2/6	N/A	0/1	0/1	0/1	0/1

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

A7. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' dealings in the Company's securities. Each director has been given a copy of the Model Code. Specific enquiry has been made of all the Company's directors and they have confirmed their compliance with the Model Code throughout the year ended 31 March 2016.

The Company has also 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 relevant 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 Employees 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 2016, the Remuneration Committee has held 1 meeting (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

– Review of the remuneration policy and structure of the Group; and

– Delegation of the power to the Company's executive directors to conduct an annual review on the remuneration packages of senior management and to make any appropriate adjustments.

B2. Remuneration Committee (Continued)

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 March 2016 is set out below:

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

Details of the remuneration of each director of the Company for the year ended 31 March 2016 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 and hence the purpose of the Board diversity. To comply with the provision of A.5.6 of the CG Code, a Board diversity policy was adopted by the Company 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, professional qualifications, skills, knowledge and industry and regional experience). The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives, if any, will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy.

B3. Nomination Committee (Continued)

During the year ended 31 March 2016, 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 18 August 2015 (the "2015 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 as well as risk management and internal control systems.

During the year ended 31 March 2016, 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 2015, the related accounting principles and practices adopted by the Group and the relevant audit findings, the report from the management on the Company's risk management and internal control systems; and recommendation of the re-appointment of the external auditors;

– Review and discussion of the continuing connected transactions of the Company for the year ended 31 March 2015; and

– Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 September 2015 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 2016.

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

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

D. INTERNAL CONTROLS

The Board is responsible for maintaining adequate risk management and internal control systems to safeguard the interests of shareholders and the Group's assets and for reviewing the effectiveness of such systems 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 risk management and internal control systems 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 2016, 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 2016 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 2016 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 2016	1,030,000
Non-audit services	
– interim review for the six months ended 30 September 2015	315,000
TOTAL:	1,345,000

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. Dr. Chiu Ka Leung, the Chairman of the Company, was unable to attend the 2015 AGM due to another 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 2015 AGM and communicate with the shareholders. The Company Secretary and other senior management were also available to answer questions from the shareholders at the 2015 AGM. No question was raised by any shareholders during the 2015 AGM.

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 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

A review of the business of the Group during the year, a discussion on the Group's future business development, an analysis of the Group's performance during the year using financial key performance indicators and a description of possible risks and uncertainties that the Group may be facing are set out in the Chairman's Statement and the Management Discussion and Analysis of this annual report. The financial risk management objectives and policies of the Group are set out in note 36 to the financial statements. In addition, discussions on the Group's relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are included in the Management Discussion and Analysis and the Corporate Governance Report of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2016 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 93.

The Board does not recommend the payment of any dividend for the year ended 31 March 2016 (2015: 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 94. This summary does not form part of the audited financial statements of the Group for the year ended 31 March 2016.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital and the Company's 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 37 to the financial statements and in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As at 31 March 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$111,192,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$334,000.

ENVIRONMENTAL POLICIES

The Group encourages environmental protection and promotes such awareness to all its employees. The Group commits to the principle and practice of recycling and reducing. To help conserve the environment, the Group implements green office practices such as the use of recycled paper for printing and copying as well as double-sided printing and copying. The Group also encourages its employees to develop good habits, save resources and energy in order to build an environmentally friendly and comfortable working environment. In addition, the Group will review its environmental practices from time to time and consider implementing more eco-friendly measures, sustainability targets and practices in the operation of the Group's businesses to embrace the principles of reducing, recycling and reuse, and further minimize the impact on the natural environment.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, purchases from the Group's five largest suppliers accounted for approximately 87% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 34%.

During the year under review, sales to the Group's five largest customers accounted for approximately 36% of the total sales for the year and sales to the largest customer included therein amounted to approximately 13%.

Dr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 55.59% in the Company's share capital, had beneficial interests in the five largest suppliers which accounted for approximately 82% of the total purchases of the Group. Dr. Chiu Ka Leung also had beneficial interests in the largest customer which accounted for approximately 13% of the total sales of the Group.

Mr. Jiao Shaoliang, a director of the Company, had beneficial interests in the five largest suppliers which accounted for approximately 82% of the total purchases of the Group. Mr. Jiao Shaoliang also had beneficial interests in the largest customer which accounted for approximately 13% of the total sales 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 and customers.

DIRECTORS

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

Executive directors:

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

Independent non-executive directors:

Mr. Lam Siu Hung
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua

In accordance with Article 87 of the Articles, Dr. Chiu Ka Leung, Mr. Lam Siu Hung and Mr. Guo Guoqing, being not less than one-third of the directors of the Company who are subject to retirement by rotation, will retire as directors of the Company by rotation at the 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 2015, except Dr. Lu Pingguo whose service contract commenced on 1 February 2015, and is subject to termination by either party giving not less than three months' prior notice in writing. The executive directors are also subject to retirement by rotation in accordance with the Articles.

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme operated by the Company as disclosed in the section headed "EQUITY-LINKED AGREEMENTS" and in note 26(a) to the financial statements, neither at the end of nor at any time during the year there subsisted any arrangement to which the Company or any of its subsidiaries was a party, and the objects of or one of the objects of such arrangement are/is to enable the Company's directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "CONNECTED TRANSACTIONS" and in notes 28 and 33 to the financial statements, no director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party subsisted at the end of the year or at any time during the year.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "CONNECTED TRANSACTIONS" and in notes 28 and 33 to the financial statements, no contracts of significance were entered into between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries 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.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the directors of the Company and its associated companies is currently in force and was in force throughout the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 March 2016, the interests held by the directors of the Company in the shares of the Company which were required, pursuant to Section 352 of the Securities and Futures Ordinance (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:

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	805,804,500	55.59%
Ms. Yeh Shu Ping	Beneficial owner	43,895,500	3.03%
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	0.08%
Dr. Lu Pingguo	Beneficial owner	16,880,000	1.16%

+ *The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2016.*

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.

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

Save as disclosed above, as at 31 March 2016, none of the directors or chief executive of the Company had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 March 2016, the following persons/corporations had interests of 5% or more of the issued shares 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 1)*	805,804,500	55.59%
Chen Fang	Beneficial owner	110,000,000	7.59%
徐永鋒	Beneficial owner	100,000,000	6.90%
Law Fei Shing	Interest of controlled corporations *(Note 2)*	764,215,000	52.72%
True Promise Investments Limited	Interest of controlled corporation *(Note 2)*	764,215,000	52.72%
Excel Precise International Limited	Person having a security interest in shares *(Note 2)*	764,215,000	52.72%

Notes:

1. Ms. 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 has been disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES" above.

2. Excel Precise International Limited was a company owned as to 25% by Mr. Law Fei Shing and 73.5% by True Promise Investments Limited. True Promise Investments Limited in turn was wholly-owned by Mr. Law Fei Shing. Accordingly, Mr. Law Fei Shing and True Promise Investments Limited were deemed to be interested in these shares which Excel Precise International Limited was deemed to have a security interest.

\+ *The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2016.*

Save as disclosed above, as at 31 March 2016, no person, other than the directors of the Company whose interests are set out in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN 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.

EQUITY-LINKED AGREEMENTS

As set out in note 26(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.

Other than the Scheme as disclosed above and in note 26(a) to the financial statements, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

CONNECTED TRANSACTIONS

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

Discloseable and connected transaction

On 5 October 2015, Winlead Investment Limited ("Winlead", an indirect wholly-owned subsidiary of the Company) entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with 雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited) ("YLI"), which is beneficially owned as to 90% by Dr. Chiu Ka Leung and 10% by Mr. Jiao Shaoliang and therefore a connected person of the Company within the meaning of the Listing Rules, in respect of the disposal of the entire equity interest in YNLF by Winlead to YLI at a total consideration of HK$52,000,000 (the "Disposal"). The Disposal is considered to be a good opportunity for the Group to reduce overall capital commitment and realise investment in YNLF for better allocation of the Group's financial resources to increase its shareholders' value. YNLF ceased to be a subsidiary of the Company upon completion of the Sale and Purchase Agreement on 26 November 2015.

CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions

(1) *Purchase of Tea Products*

On 12 May 2009, 雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited) ("YNLR", an indirect wholly-owned subsidiary of the Company) 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 Company Limited) ("LRTG"), 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 97% and 3%, respectively, of the issued share capital of LRTG, for a term of 10 years. Pursuant to the Purchase Agreement, YNLR is granted an exclusive right to purchase the tea products and tea-related food products manufactured by LRTG (the "Tea Products") and to use the trademarks (including both registered and unregistered trademarks) owned by LRTG and its subsidiaries (such transaction be hereinafter referred to as the "Transaction 1"). As such, all the Tea Products are sold to YNLR. YNLR, through developing its own distribution network of self-owned stores and franchised stores, is distributing the Tea Products to the market. With the Purchase Agreement, a long-term contract in place, YNLR is able to secure the supply of high quality Tea Products at favourable purchase terms.

The purchase price of the Tea Products payable by YNLR to LRTG is the lower of: (i) the production costs of the Tea Products or the book value of the inventory of LRTG 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 YNLR from other independent manufacturers. The premium of 10% was determined on normal commercial terms with reference to historical costs incurred by LRTG to carry out its business.

The maximum amount of purchase of the Tea Products payable by YNLR to LRTG arising from the Transaction 1 approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 5 April 2013 for the financial year ended 31 March 2016 was HK$190,000,000. At the Company's extraordinary general meeting held on 16 June 2016, the independent shareholders of the Company approved the said maximum amount of purchase of the Tea Products for each of the three financial years ending 31 March 2017, 31 March 2018 and 31 March 2019 as HK$148,000,000, HK$166,000,000 and HK$186,000,000 respectively. For the year ended 31 March 2016, the amount of fees paid to LRTG under the Transaction 1 amounted to HK$110,121,000, which was within the above maximum amount of HK$190,000,000. Further details of the Transaction 1 are included in note 33(a) to the financial statements.

CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions (Continued)

(2) *Sale of Tea Products*

On 16 April 2014, YNLR entered into a sales agreement (the "Sales Agreement") with Ideality 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 85.5% and 14.5%, respectively, of the issued share capital of Ideality Group, for a term from 16 April 2014 to 31 March 2015. Pursuant to the Sales Agreement, YNLR would sell the Tea Products to Ideality Group (such transaction be hereinafter referred to as the "Transaction 2", and together with "Transaction 1", collectively referred to as the "Transactions"). As such, the Group can have access to a new distribution channel and generate additional revenue stream.

As the demand of the Tea Products from Ideality Group is higher than the Group's prior estimation, the annual cap in respect of Transaction 2 contemplated under the Sales Agreement may not be sufficient for the Group's future requirements. On 30 October 2014, YNLR entered into a supplemental sales agreement (the "Supplemental Sales Agreement") with Ideality Group. Pursuant to the Supplemental Sales Agreement, YNLR would continue to sell the Tea Products to Ideality Group with the revised annual cap for the period from 16 April 2014 to 31 March 2015 and for a further term of two years up to the financial year ending 31 March 2017. As such, the Group is able to capture the growth potential of the business of Ideality Group and the direct selling market in the PRC as a whole.

The price of the Tea Products for each purchase order is based on a fix unit price and determined with reference to, including but not limited to, the quality (grading and year of production) and the quantity of the Tea Products. Before entering into any purchase order, the Company would also compare the prices of the relevant Tea Products charged under at least two comparable transactions offered to independent third parties.

The maximum amount of sale of the Tea Products by YNLR to Ideality Group arising from the Transaction 2 approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 16 December 2014 for the period from 16 April 2014 to 31 March 2015 and each of the two financial years ended/ending 31 March 2016 and 31 March 2017 was HK$28,000,000, HK$34,000,000 and HK$40,000,000, respectively. For the year ended 31 March 2016, the amount received from Ideality Group under the Transaction 2 amounted to HK$27,442,000, which was within the above maximum amount of HK$34,000,000. Further details of the Transaction 2 are included in note 33(a) to the financial statements.

The independent non-executive directors of the Company have reviewed the Transactions for the year ended 31 March 2016 and confirmed that the Transactions had been entered into by the Group: (a) in its ordinary and usual course of business; (b) on normal commercial terms or better; and (c) in accordance with the Purchase Agreement/ Supplemental Sales Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with 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 and 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 and 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 2016, 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 considered that the operations of YPYP will not affect the Group's business.

Save as disclosed herein, the directors confirmed 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, 25 August 2016 to Monday, 29 August 2016 (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 29 August 2016, 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, 24 August 2016.

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
17 June 2016

安永

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

We have audited the consolidated financial statements of Longrun Tea Group Company Limited (the "Company") and its subsidiaries set out on pages 32 to 93, which comprise the consolidated statement of financial position as at 31 March 2016, 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.

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 financial position of the Company and its subsidiaries as at 31 March 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance 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

17 June 2016

Consolidated Statement of Profit or Loss

Year ended 31 March 2016

	Notes	**2016 HK$'000**	2015 HK$'000
REVENUE	*4*	**217,659**	256,439
Cost of sales		**(141,870)**	(156,979)
Gross profit		**75,789**	99,460
Other income and gains	*4*	**8,208**	9,618
Gain on disposal of items of property, plant and equipment, net		**84**	452
Gain on disposal of subsidiaries	*28*	**18,811**	–
Selling and distribution expenses		**(59,138)**	(94,233)
Administrative expenses		**(32,438)**	(42,366)
Amortisation of intangible assets	*14*	**–**	(4,884)
Other expenses		**(6,501)**	(175,466)
Finance costs	*6*	**(16)**	(22)
PROFIT/(LOSS) BEFORE TAX	*5*	**4,799**	(207,441)
Income tax credit/(expense)	*9*	**(2,385)**	3,564
PROFIT/(LOSS) FOR THE YEAR		**2,414**	(203,877)
Profit/(loss) attributable to owners of the Company		**2,414**	(203,877)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	*11*		
Basic		**HK0.17 cents**	HK(14.07) cents
Diluted		**HK0.17 cents**	HK(14.07) cents

Consolidated Statement of Comprehensive Income

Year ended 31 March 2016

	2016 HK$'000	2015 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**2,414**	(203,877)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(7,886)**	560
Release of exchange fluctuation reserve on disposal of subsidiaries	**(9,914)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(17,800)**	560
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(15,386)**	(203,317)
Total comprehensive loss attributable to owners of the Company	**(15,386)**	(203,317)

Consolidated Statement of Financial Position

31 March 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**3,504**	21,193
Prepaid land lease payments	*13*	**–**	5,360
Total non-current assets		**3,504**	26,553
CURRENT ASSETS			
Inventories	*17*	**3,816**	31,079
Trade and bills receivables	*18*	**49,387**	41,260
Prepayments, deposits and other receivables	*19*	**58,145**	15,386
Tax recoverable		**181**	–
Time deposits with original maturity of more than three months	*20*	**156,338**	165,053
Cash and cash equivalents	*20*	**53,053**	81,936
Total current assets		**320,920**	334,714
CURRENT LIABILITIES			
Trade payables	*21*	**28,455**	35,996
Other payables and accruals	*22*	**55,958**	60,651
Finance lease payables	*23*	**293**	175
Due to related companies	*33(b)*	**644**	1,803
Due to directors	*33(b)*	**7,945**	12,978
Tax payable		**–**	1,490
Total current liabilities		**93,295**	113,093
NET CURRENT ASSETS		**227,625**	221,621
TOTAL ASSETS LESS CURRENT LIABILITIES		**231,129**	248,174

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Finance lease payables	*23*	**456**	–
Deferred income		**4,521**	6,259
Deferred tax liabilities	*24*	**–**	377
Total non-current liabilities		**4,977**	6,636
Net assets		**226,152**	241,538
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*25*	**72,476**	72,476
Reserves	*27*	**153,676**	169,062
Total equity		**226,152**	241,538

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2016

	Note	Attributable to owners of the Company							
		Issued capital	Share premium account	Contributed surplus	Statutory surplus reserve	Employee share-based compensation reserve	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total equity
	Note	HK$'000	HK$'000	HK$'000 *(note 27)*	HK$'000 *(note 27)*	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2014		72,476	252,319	300	–	4,098	25,944	89,718	444,855
Loss for the year		–	–	–	–	–	–	(203,877)	(203,877)
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	–	560	–	560
Total comprehensive income/(loss) for the year		–	–	–	–	–	560	(203,877)	(203,317)
Transfer upon the expiry of share options		–	–	–	–	(4,098)	–	4,098	–
Transfer from retained profits		–	–	–	2,364	–	–	(2,364)	–
At 31 March 2015 and 1 April 2015		72,476	252,319*	300*	2,364*	–*	26,504*	(112,425)*	241,538
Profit for the year		–	–	–	–	–	–	2,414	2,414
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	–	(7,886)	–	(7,886)
Release of exchange fluctuation reserve upon disposal of subsidiaries	*28*	–	–	–	–	–	(9,914)	–	(9,914)
Total comprehensive loss for the year		–	–	–	–	–	(17,800)	2,414	(15,386)
Transfer to retained profits upon disposal of subsidiaries		–	–	–	(2,364)	–	–	2,364	–
At 31 March 2016		72,476	252,319*	300*	–*	–	8,704*	(107,647)*	226,152

* *These reserve accounts comprise the consolidated reserves of HK$153,676,000 (2015: HK$169,062,000) in the consolidated statement of financial position.*

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**4,799**	(207,441)
Adjustments for:			
Dividend income from listed investments	4	**–**	(16)
Gain on disposal of subsidiaries	28	**(18,811)**	–
Finance costs	6	**16**	22
Interest income	4	**(4,104)**	(6,213)
Fair value gains on financial assets at fair value through profit or loss	4	**–**	(79)
Depreciation	5	**4,665**	16,072
Recognition of prepaid land lease payments	5	**139**	143
Impairment of goodwill	5	**–**	116,920
Impairment of items of property, plant and equipment	5	**1,805**	38,362
Impairment of intangible assets	5	**–**	20,184
Gain on disposal of items of property, plant and equipment, net	5	**(84)**	(452)
Amortisation of intangible assets	14	**–**	4,884
Impairment of trade receivables	5	**4,730**	413
Impairment of other receivables	5	**122**	–
Reversal of impairment of trade receivables	5	**(272)**	(347)
Provision for slow-moving and obsolete inventories	5	**3,399**	1,151
		(3,596)	(16,397)
Increase in inventories		**(2,377)**	(5,787)
Decrease/(increase) in trade and bills receivables		**(20,755)**	1,495
Decrease in prepayments, deposits and other receivables		**993**	3,258
Decrease in restricted cash		**–**	3,742
Decrease in amounts due to related companies		**(261)**	(119)
Increase/(decrease) in trade payables		**11,329**	(15,068)
Increase/(decrease) in other payables and accruals		**11,243**	(8,239)
Increase/(decrease) in deferred income		**(1,788)**	235
Cash used in operations		**(5,212)**	(36,880)
PRC withholding tax paid		**(3,675)**	–
PRC profits tax paid		**(667)**	(1,959)
Net cash flows used in operating activities		**(9,554)**	(38,839)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**6,201**	5,777
Purchases of items of property, plant and equipment		**(4,137)**	(8,710)
Proceeds from disposal of items of property, plant and equipment		**84**	796
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	249
Dividend received from listed investments		**–**	16
Disposal of subsidiaries	28	**(17,640)**	–
Decrease in short term time deposits with original maturity of more than three months		**8,715**	20,186
Net cash flows from/(used in) investing activities		**(6,777)**	18,314

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of finance leases		**(318)**	(264)
Increase/(decrease) in amounts due to directors		**(5,033)**	2,027
Interest element of finance lease rental payments		**(16)**	(22)
Net cash flows from/(used in) financing activities		**(5,367)**	1,741
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(21,698)**	(18,784)
Cash and cash equivalents at beginning of year		**81,936**	100,363
Effect of foreign exchange rate changes, net		**(7,185)**	357
CASH AND CASH EQUIVALENTS AT END OF YEAR		**53,053**	81,936
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*20*	**22,680**	51,798
Time deposits with original maturity of less than three months	*20*	**30,373**	30,138
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**53,053**	81,936

1. CORPORATE AND GROUP INFORMATION

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands	US$200	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	Trading of pharmaceutical products
Hong Kong Health Journal Limited	Hong Kong	HK$100,000	100	Dormant
International Health Association (HK) Limited	Hong Kong	HK$100,000	100	Dormant
Winlead Investment Limited	British Virgin Islands	US$1	100	Investment holding
Long Far Health Products Limited	Hong Kong	HK$2	100	Trading of health products
雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Company Limited)**^@ ("YNLF")	The PRC/ Mainland China	RMB31,580,900	100	Manufacture and distribution of pharmaceutical products
Long Far Investment (Hong Kong) Limited	Hong Kong	HK$1	100	Property holding
Long Far Pharmaceutical (Macau) Limited	Macau	MOP25,000	100	Dormant
Long Far Mining Holdings (Hong Kong) Limited	Hong Kong	HK$1	100	Dormant
Long Far Real Estate Limited	Hong Kong	HK$1	100	Dormant

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Issued ordinary share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Longrun Tea Wealth Creation Company Limited ("Longrun Tea Wealth")	British Virgin Islands	US$1	100	Investment holding
Longrun Tea Trading Company Limited	Hong Kong	HK$1	100	Investment holding, tea product 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)**@ ("YNLR")	The PRC/ Mainland China	HK$47,000,000	100	Trading of tea products
雲南龍潤實業有限公司 (Yunnan Longrun Enterprise Company Limited)**^@ ("YNLE")	The PRC/ Mainland China	RMB10,000,000	100	Investment holding
北京龍潤十八號餐飲管理有限公司 (Beijing Longrun No.18 CanYin Management Company Limited)**^@	The PRC/ Mainland China	RMB18,600,000	100	Operating of clubhouse and trading
Longrun Tea Online Shopping Company Limited	Hong Kong	HK$1	100	Trading of tea products
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.*

^ *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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. 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 2016. 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.

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 above. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

- HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group has not acquired any investment property during the year and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

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*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[4]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 *Effective for annual periods beginning on or after 1 January 2016*
2 *Effective for annual periods beginning on or after 1 January 2018*
3 *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group*
4 *Effective for annual periods beginning on or after 1 January 2019*
5 *No mandatory effective date yet determined but available for adoption*

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 April 2018. The Group is currently assessing the impact of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 April 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 April 2016.

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

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 April 2018. The Group expects to adopt HKFRS 15 on 1 April 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

In May 2016, the HKICPA issued HKFRS 16 which required lessees to recognise assets and liabilities for most leases. Under the new standard, a lease is a contract, or part of a contract, that conveys the right to use an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset if, throughout the period of use, the customer has the right to obtain substantially all of the economic benefits from the use of the identified asset and direct the use of the identified asset. Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the identified asset for the lease term. Subsequently, leases accrete the lease liability to reflect interest and reduce the liability to reflect lease payments made. The related right-of-use asset is depreciated in accordance with the depreciation requirements of HKAS 16 Property, Plant and Equipment. For lessors, there is little change to the existing accounting in HKAS 17 Leases. The Group expects to adopt HKFRS 16 on 1 April 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 April 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 April 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 of 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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

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 operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

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, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period as to whether there is 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);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the 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 category.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 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 using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 finance lease payables.

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.

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 estimated costs expected to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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 grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 26 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the 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 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.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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 measured at fair value 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 Hong Kong dollars 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 judgements, 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 24 to the financial statements.

2.5 SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Estimation uncertainty (Continued)

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.

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/(loss) before tax except that interest income, finance costs, dividend income, gain on disposal of subsidiaries, gain on disposal of items of property, plant and equipment, fair value gains 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, time deposits with original maturity of more than three months, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude finance lease payables, 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 2016

	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	48,845	168,814	217,659
Other revenue	1,078	3,026	4,104
	49,923	171,840	221,763
Segment results	(5,896)	1,001	(4,895)
Reconciliation:			
Gain on disposal of subsidiaries			18,811
Interest income			4,104
Impairment of items of property, plant and equipment			(1,805)
Gain on disposal of items of property, plant and equipment, net			84
Corporate and other unallocated expenses			(11,484)
Finance costs			(16)
Profit before tax			4,799
Segment assets	52,880	61,776	114,656
Reconciliation:			
Time deposits with original maturity of more than three months			156,338
Cash and cash equivalents			53,053
Tax recoverable			181
Corporate and other unallocated assets			196
Total assets			324,424
Segment liabilities	1,731	79,243	80,974
Reconciliation:			
Finance lease payables			749
Corporate and other unallocated liabilities			16,549
Total liabilities			98,272
Other segment information:			
Impairment losses recognised in the statement of profit or loss	3,287	6,769	10,056
Impairment losses reversed in the statement of profit or loss	(172)	(100)	(272)
Depreciation and amortisation	3,815	989	4,804
Capital expenditure*	2,966	2,063	5,029

3. OPERATING SEGMENT INFORMATION (Continued)

(a) Operating segment (Continued)

Year ended 31 March 2015

	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	67,266	189,173	256,439
Other revenue	233	3,044	3,277
	67,499	192,217	259,716
Segment results	(2,941)	(19,282)	(22,223)
Reconciliation:			
Impairment of items of property, plant and equipment	–	(38,362)	(38,362)
Impairment of intangible assets	–	(20,184)	(20,184)
Impairment of goodwill	–	(116,920)	(116,920)
Interest income			6,213
Gain on disposal of items of property, plant and equipment, net			452
Dividend income and other unallocated gains			129
Corporate and other unallocated expenses			(16,524)
Finance costs			(22)
Loss before tax			(207,441)
Segment assets	61,206	52,870	114,076
Reconciliation:			
Time deposits with original maturity of more than three months			165,053
Cash and cash equivalents			81,936
Corporate and other unallocated assets			202
Total assets			361,267
Segment liabilities	29,842	66,784	96,626
Reconciliation:			
Deferred tax liabilities			377
Tax payable			1,490
Finance lease payables			175
Corporate and other unallocated liabilities			21,061
Total liabilities			119,729
Other segment information:			
Impairment losses recognised in the statement of profit or loss	1,289	275	1,564
Impairment losses reversed in the statement of profit or loss	(144)	(203)	(347)
Depreciation and amortisation	3,679	17,420	21,099
Capital expenditure*	1,210	7,500	8,710

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

3. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information

(i) Revenue from external customers:

	2016 **HK$'000**	2015 HK$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	**207,139**	238,937
Hong Kong	**6,031**	8,854
Elsewhere in Asia	**4,489**	8,648
	217,659	256,439

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

(ii) Non-current assets:

	2016 **HK$'000**	2015 HK$'000
The PRC, excluding Hong Kong	**2,483**	25,775
Hong Kong	**1,021**	778
	3,504	26,553

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

Information about major customers

Revenue of approximately HK$27,442,000 for the year ended 31 March 2016 was derived from sales to a single major customer, which contributed 10% or more sales to the Group's revenue, including sales to a group of entities which are known to be under common control with that customer.

No customer of the Group has individually accounted for over 10% of the Group's total revenue for the year ended 31 March 2015.

4. REVENUE, OTHER INCOME AND GAINS

Revenue 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:

	2016 **HK$'000**	2015 HK$'000
Revenue		
Sale of goods	**217,659**	256,439
Other income		
Franchise income	**1,997**	2,225
Dividend income from listed investments	**–**	16
Interest income	**4,104**	6,213
Subsidy income	**1,460**	165
Rental income	**192**	–
Others	**455**	920
	8,208	9,539
Gains		
Fair value gains on financial assets at fair value through profit or loss	**–**	79
	8,208	9,618

5. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		**135,823**	152,353
Depreciation	*12*	**4,665**	16,072
Recognition of prepaid land lease payments	*13*	**139**	143
Minimum lease payments under operating leases of offices and buildings		**15,470**	19,380
Auditors' remuneration		**1,030**	1,030
Employee benefit expense (excluding directors' remuneration in note 7):			
Wages and salaries		**38,007**	49,279
Pension scheme contributions		**1,117**	1,786
		39,124	51,065
Provision for slow-moving and obsolete inventories*		**3,399**	1,151
Foreign exchange differences, net#		**–**	(113)
Impairment of trade receivables@	*18*	**4,730**	413
Impairment of items of property, plant and equipment@	*12*	**1,805**	38,362
Impairment of intangible assets@	*14*	**–**	20,184
Impairment of goodwill@	*15*	**–**	116,920
Impairment of other receivables@		**122**	–
Reversal of impairment of trade receivables@	*18*	**(272)**	(347)
Gain on disposal of items of property, plant and equipment, net		**(84)**	(452)
Fair value gains on financial assets at fair value through profit or loss	*4*	**–**	(79)
Subsidy income^		**(1,460)**	(165)
Gain on disposal of subsidiaries	*28*	**(18,811)**	–

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

\# *Included in the "Other income" on the face of the consolidated statement of profit or loss.*

@ *Included in the "Other expenses" on the face of the consolidated statement of profit or 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.*

6. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on finance leases	**16**	22

7. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK$'000	2015 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**288**	288
	288	288
Other emoluments:		
Salaries, allowances and benefits in kind	**5,126**	5,127
Pension scheme contributions	**48**	47
	5,174	5,174
	5,462	5,462

(a) Independent non-executive directors

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

	2016 HK$'000	2015 HK$'000
Mr. Guo Guoqing	**72**	72
Mr. Lam Siu Hung	**72**	72
Mr. Kwok Hok Lun	**72**	72
Dr. Liu Zhonghua	**72**	72
	288	288

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

7. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 March 2016			
Executive directors:			
Dr. Chiu Ka Leung	**2,322**	**18**	**2,340**
Ms. Yeh Shu Ping	**1,950**	**–**	**1,950**
Mr. Jiao Shaoliang	**606**	**18**	**624**
Dr. Lu Pingguo	**248**	**12**	**260**
	5,126	**48**	**5,174**

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 March 2015			
Executive directors:			
Dr. Chiu Ka Leung	2,322	18	2,340
Ms. Yeh Shu Ping	1,950	–	1,950
Mr. Jiao Shaoliang	607	18	625
Dr. Lu Pingguo	248	11	259
	5,127	47	5,174

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 (2015: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	**3,434**	3,406
Pension scheme contributions	**54**	53
	3,488	3,459

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

	Number of employees 2016	2015
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**2**	2
	3	3

9. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the current year (2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Note	2016 HK$'000	2015 HK$'000
Current – Hong Kong			
Charge for the year		**–**	–
Overprovision in prior years		**–**	(461)
Current – Mainland China			
Charge for the year		**2,912**	2,758
Underprovision/(overprovision) in prior years		**(490)**	610
Deferred tax	*24*	**(37)**	(6,471)
Total tax expense/(credit) for the year		**2,385**	(3,564)

9. INCOME TAX (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:

2016

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(2,866)		7,665		4,799	
Tax at the statutory or applicable tax rate	(473)	16.5	1,918	25.0	1,445	30.1
Preferential tax rate	–	–	(1,324)	(17.3)	(1,324)	(27.6)
Adjustments in respect of current tax of previous periods	–	–	(490)	(6.4)	(490)	(10.2)
Income not subject to tax	(2,525)	88.1	(531)	(6.9)	(3,056)	(63.7)
Expenses not deductible for tax	3	(0.1)	1,959	25.6	1,962	40.9
Tax loss utilised from previous periods	(21)	0.7	–	–	(21)	(0.4)
Effect of withholding tax at 10% on the disposal gain of a subsidiary	–	–	2,175	28.4	2,175	45.3
Tax losses not recognised	2,987	(>100)	3,795	49.5	6,782	>100
Others	29	(1.0)	(5,117)	(66.8)	(5,088)	>100
Tax at the Group's effective rate	–	–	2,385	31.1	2,385	49.7

2015

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(17,174)		(190,267)		(207,441)	
Tax at the statutory or applicable tax rate	(2,834)	16.5	(47,565)	25.0	(50,399)	24.3
Preferential tax rate	–	–	1,615	(0.8)	1,615	(0.8)
Adjustments in respect of current tax of previous periods	(461)	2.7	610	(0.3)	149	(0.1)
Income not subject to tax	(158)	0.9	(3)	–	(161)	0.1
Expenses not deductible for tax	–	–	42,351	(22.3)	42,351	(20.4)
Effect of withholding tax at 5% on the proposed dividend	–	–	1,500	(0.8)	1,500	(0.7)
Tax losses not recognised	3,110	(18.1)	3,589	(1.9)	6,699	(3.2)
Others	(118)	0.7	(5,200)	2.7	(5,318)	2.5
Tax at the Group's effective rate	(461)	2.7	(3,103)	1.6	(3,564)	1.7

9. INCOME TAX (Continued)

In accordance with the relevant tax rules and regulations in Mainland China, two subsidiaries of the Company in Mainland China enjoyed tax benefit as follows:

YNLR and YNLF, subsidiaries of the Company in the PRC, were assessed as High and New Technology Enterprises which were subject to a reduced preferential corporate income tax ("CIT") rate of 15% for a 3-year period from 2015 to 2018 and from 2014 to 2017, respectively, according to the applicable PRC Corporate Income Tax Law.

10. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2016 (2015: Nil).

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the Company of HK$2,414,000 (2015: loss of HK$203,877,000), and the weighted average number of ordinary shares of 1,449,520,000 (2015: 1,449,520,000) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 March 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year ended 31 March 2016 and the impact of the share options outstanding during the year ended 31 March 2015 had no dilutive effect on the basic loss per share amount presented.

12. PROPERTY, PLANT AND EQUIPMENT

	Note	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	Construction in progress HK$'000	Total HK$'000
31 March 2016									
At 31 March 2015:									
Cost		30,119	5,044	4,102	725	16,118	3,296	–	59,404
Accumulated depreciation and impairment		(16,167)	(1,254)	(2,506)	(666)	(14,647)	(2,971)	–	(38,211)
Net carrying amount		13,952	3,790	1,596	59	1,471	325	–	21,193
At 1 April 2015, net of accumulated depreciation and impairment		13,952	3,790	1,596	59	1,471	325	–	21,193
Additions		75	1,378	1,519	–	162	1,315	580	5,029
Disposal/write off		–	(122)	–	–	–	–	–	(122)
Disposal of subsidiaries	*28*	(12,037)	(430)	(1,361)	–	(809)	(162)	(571)	(15,370)
Depreciation provided during the year		(1,476)	(1,510)	(488)	(27)	(776)	(388)	–	(4,665)
Impairment		–	(1,805)	–	–	–	–	–	(1,805)
Exchange realignment		(514)	(97)	(74)	–	(48)	(14)	(9)	(756)
At 31 March 2016, net of accumulated depreciation and impairment		–	1,204	1,192	32	–	1,076	–	3,504
At 31 March 2016:									
Cost		–	2,957	1,998	725	1,101	2,342	–	9,123
Accumulated depreciation and impairment		–	(1,753)	(806)	(693)	(1,101)	(1,266)	–	(5,619)
Net carrying amount		–	1,204	1,192	32	–	1,076	–	3,504

12. PROPERTY, PLANT AND EQUIPMENT (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 2015									
At 1 April 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
At 1 April 2014, net of accumulated depreciation	19,916	28,687	8,647	2,170	1,413	985	2,081	2,913	66,812
Additions	105	3,532	3,137	44	882	775	–	235	8,710
Disposal	–	(85)	(8)	–	–	–	–	–	(93)
Depreciation provided during the year	(1,756)	(9,023)	(3,759)	(31)	(827)	(676)	–	–	(16,072)
Transfers	–	2,922	–	–	–	–	–	(2,922)	–
Impairment	(4,367)	(22,332)	(6,448)	(2,130)	–	(762)	(2,088)	(235)	(38,362)
Exchange realignment	54	89	27	6	3	3	7	9	198
At 31 March 2015, net of accumulated depreciation and impairment	13,952	3,790	1,596	59	1,471	325	–	–	21,193
At 31 March 2015:									
Cost	30,119	5,044	4,102	725	16,118	3,296	–	–	59,404
Accumulated depreciation and impairment	(16,167)	(1,254)	(2,506)	(666)	(14,647)	(2,971)	–	–	(38,211)
Net carrying amount	13,952	3,790	1,596	59	1,471	325	–	–	21,193

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 2016 amounted to HK$809,000 (2015: Nil).

13. PREPAID LAND LEASE PAYMENTS

	Notes	2016 HK$'000	2015 HK$'000
Carrying amount at beginning of year		**5,500**	5,629
Recognised during the year	*5*	**(139)**	(143)
Disposal of subsidiaries	*28*	**(5,153)**	–
Exchange realignment		**(208)**	14
Carrying amount at end of year		**–**	5,500
Current portion included in prepayments, deposits and other receivables		**–**	(140)
Non-current portion		**–**	5,360

14. INTANGIBLE ASSETS

	Trademarks and right to the use of trademarks HK$'000	Exclusive purchase right HK$'000	Total HK$'000
31 March 2016			
At 31 March 2016:			
Cost	**12,461**	**35,397**	**47,858**
Accumulated amortisation and impairment	**(12,461)**	**(35,397)**	**(47,858)**
Net carrying amount	**–**	**–**	**–**

14. INTANGIBLE ASSETS (Continued)

	Note	Trademarks and right to the use of trademarks HK$'000	Exclusive purchase right HK$'000	Total HK$'000
31 March 2015				
At 1 April 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
Cost at 1 April 2014, net of accumulated amortisation		6,527	18,541	25,068
Amortisation provided during the year		(1,272)	(3,612)	(4,884)
Impairment during the year	*5*	(5,255)	(14,929)	(20,184)
At 31 March 2015		–	–	–
At 31 March 2015:				
Cost		12,461	35,397	47,858
Accumulated amortisation and impairment		(12,461)	(35,397)	(47,858)
Net carrying amount		–	–	–

15. GOODWILL

	Note	2016 HK$'000	2015 HK$'000
Cost and net carrying amount at 1 April		–	116,920
Impairment during the year	5	–	(116,920)
Cost and net carrying amount at 31 March		–	–

Impairment testing of goodwill

Goodwill acquired through business combination is 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. For the year ended 31 March 2015, the discount rate applied to the cash flow projections was 16% and cash flows beyond the five-year period were 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 2015. The following describes each key assumption on which management had based its cash flow projections to undertake impairment testing of goodwill:

Budgeted turnover – Budgeted turnover was 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 was 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 was before tax and reflects specific risks relating to the relevant unit.

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

Based on the annual impairment test performed for the year ended in 31 March 2015, an impairment loss of HK$117 million had been provided in relation to the cash-generating unit of distribution of tea and other food products. The recoverable amount of the cash-generating unit determined based on value in use calculation was estimated to be HK$12 million. The intangible assets and property, plant and equipment of the cash-generating unit amounting to HK$20,184,000 and HK$38,362,000, respectively, were also impaired in the prior year. The impairment loss arose as a result of the following factors: (i) the continuous slowdown in the economic growth has been affecting the consumer market in the PRC; (ii) the discouragement of excessive hospitality such as gifting, entertainment and banquets by the PRC government; and (iii) the implementation of new tourist regulation which governs shopping activities of tours in the PRC.

16. PROPERTIES CLASSIFIED AS HELD FOR SALE

	HK$'000
Carrying amount at 1 April 2014	341
Disposals	(341)
Carrying amount at 31 March 2015	–

During the year ended 31 March 2015, the Group disposed of properties classified as held for sale with an aggregate net book value of HK$341,000.

17. INVENTORIES

	2016 HK$'000	2015 HK$'000
Trading goods	**3,162**	2,613
Finished goods	**149**	12,344
Work in progress	**95**	8,796
Raw materials	**187**	4,112
Packaging materials	**223**	3,214
	3,816	31,079

18. TRADE AND BILLS RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**54,072**	41,557
Bills receivable	**60**	505
	54,132	42,062
Impairment	**(4,745)**	(802)
	49,387	41,260

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 60 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.

18. TRADE AND BILLS RECEIVABLES (Continued)

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:

	2016 **HK$'000**	2015 HK$'000
Within 1 month	**7,910**	11,448
2 to 3 months	**28,511**	24,148
4 to 12 months	**12,966**	5,664
	49,387	41,260

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:

	2016 **HK$'000**	2015 HK$'000
Current (neither past due nor impaired)	**30,100**	26,047
Within 1 to 3 months overdue	**17,321**	15,209
Within 4 to 12 months overdue	**1,966**	4
	49,387	41,260

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

	Note	**2016** **HK$'000**	2015 HK$'000
At beginning of year		**802**	736
Impairment loss recognised	*5*	**4,730**	413
Impairment loss reversed	*5*	**(272)**	(347)
Amount written off on uncollectible		**(515)**	–
At end of year		**4,745**	802

Included in the above provision for impairment of the trade receivables is a provision for individually impaired trade receivables of HK$4,745,000 (2015: HK$802,000) with a carrying amount before provision of HK$4,745,000 (2015: HK$802,000).

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.

Included in the Group's trade receivables are trade receivables due from 理想科技集團有限公司 (Ideality Technology Group Company Limited)[@] (the "Ideality Group"), a related party of the Group, of HK$4,860,000 (2015: HK$7,293,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

@ *Official name of this entity is in Chinese. The English translation of the name is for identification purpose only.*

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayments	**312**	5,000
Deposits and other receivables	**57,833**	10,386
	58,145	15,386

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Included in the Group's other receivables was an amount of HK$49,825,000 due from 雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited)@ ("YLI"), which is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively, which was the consideration receivable on disposal of YNLF of HK$52,000,000, net of withholding tax at 10% of HK$2,175,000, which was paid on behalf of the Group by YLI.

20. CASH AND CASH EQUIVALENTS

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**22,680**	51,798
Time deposits with original maturity of less than three months	**30,373**	30,138
Cash and cash equivalents	**53,053**	81,936

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$5,743,000 (2015: HK$29,012,000). 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.

The Group's time deposits with original maturity of more than three months are denominated in RMB.

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.

@ *Official name of this entity is in Chinese. The English translation of the name is for identification purpose only.*

21. 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:

	2016 HK$'000	2015 HK$'000
Current	**5,932**	30,958
Within 1 to 3 months overdue	**20,614**	3,243
Within 4 to 12 months overdue	**1,383**	361
Over 12 months overdue	**526**	1,434
	28,455	35,996

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

	2016 HK$'000	2015 HK$'000
Yunnan Longrun Tea Development Company Limited@ ("YLRT") 雲南龍潤茶業發展有限公司	**1,313**	1,244
Yunnan Longrun Tea Group Company Limited@ ("LRTG") 雲南龍潤茶業集團有限公司	**11,636**	11,676
Fengqing Longrun Tea Company Limited@ ("FLRT") 鳳慶龍潤茶業有限公司	**5,991**	1,821
Changning Longrun Tea Company Limited@ ("CLRT") 昌寧縣龍潤茶業有限公司	**8,935**	2,098
Yunxian Tianlong Eco-Tea Company Limited@ ("YTET") 雲縣天龍生態茶業有限責任公司	**–**	1,144
	27,875	17,983

FLRT, CLRT and YTET are wholly-owned subsidiaries of LRTG. LRTG is beneficially owned as to 97% and 3% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively. YLRT is benefically owned as to 77% and 23% 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.*

22. OTHER PAYABLES AND ACCRUALS

	2016 HK$'000	2015 HK$'000
Receipts in advance	**29,907**	29,856
Accruals	**22,548**	26,755
Other payables	**3,503**	4,040
	55,958	60,651

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

Included in the Group's other payables is an other payable due to YLRT, a related party of the Group, of HK$1,136,000 (2015: HK$656,000).

23. 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 2016, the total future minimum lease payments under finance leases and its present values were as follows:

	Minimum lease payments 2016 HK$'000	Minimum lease payments 2015 HK$'000	**Present value of minimum lease payments 2016 HK$'000**	Present value of minimum lease payments 2015 HK$'000
Amounts payable:				
Within one year	**311**	180	**293**	175
In the second year	**311**	–	**302**	–
In the third to fifth years	**155**	–	**154**	–
Total minimum finance lease payments	**777**	180	**749**	175
Future finance charges	**(28)**	(5)		
Total net finance lease payables	**749**	175		
Portion classified as current liabilities	**(293)**	(175)		
Non-current portion	**456**	–		

24. DEFERRED TAX

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

Deferred tax liabilities

	Notes	**Fair value adjustments arising from acquisition of subsidiaries** HK$'000
At 1 April 2014		6,846
Deferred tax credited to the statement of profit or loss during the year	*9*	(6,471)
Exchange realignment		2
At 31 March 2015 and 1 April 2015		377
Deferred tax credited to the statement of profit or loss during the year	*9*	(37)
Disposal of subsidiaries	*28*	(326)
Exchange realignment		(14)
Gross deferred tax liabilities at 31 March 2016		–

Deferred tax assets

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:

	2016 **HK$'000**	2015 HK$'000
Tax losses	**203,899**	187,842
Deductible temporary differences	**196**	1,003
	204,095	188,845

The Group has tax losses arising in Hong Kong of HK$175,398,000 (2015: HK$157,446,000) 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$28,501,000 (2015: HK$30,396,000) that will expire in four to five years for offsetting against future taxable profits.

24. DEFERRED TAX (Continued)

Withholding tax liability

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 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$66,693,000 at 31 March 2016 (2015: HK$91,938,000).

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

25. SHARE CAPITAL

	2016 **HK$'000**	2015 HK$'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 (2015: 1,449,520,000) ordinary shares of HK$0.05 each	**72,476**	72,476

Share options

Details of the Company's share option scheme and the share options issued in the prior years are included in note 26 to the financial statements.

26. 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.

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 quotation sheet of 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 quotation sheet 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 2016 and 2015, no share options were outstanding under the Scheme. No share options were outstanding, granted, exercised or lapsed under the Scheme during the year.

26. 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 product business. A total of 50,000,000 share options were subsequently granted on 23 July 2009.

The following share options were lapsed under the option agreements during the year ended 31 March 2015:

	Weighted average exercise price HK$ per share	**Number of options**
At 1 April 2014	0.4	4,000,000
Lapsed during the year	0.4	(4,000,000)
At 31 March 2015		–

As at 31 March 2016 and 2015, no share options were outstanding under the option agreements. No share options were outstanding, granted, exercised or lapsed under the option agreements during the year.

27. RESERVES

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 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.

Transfers from retained profits to the statutory surplus reserve were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC, and were approved by the respective boards of directors.

28. DISPOSAL OF SUBSIDIARIES

In November and December 2015, the Group disposed of its entire interest in YNLF to YLI, a company beneficially owned as to 90% by Dr. Chiu Ka Leung and as to 10% by Mr. Jiao Shaoliang (directors of the Company), for a consideration of HK$52,000,000, and its entire interest in YNLE to an independent third party for a cash consideration of HK$241,000, respectively. YNLF is principally engaged in the manufacture and distribution of pharmaceutical products and YNLE is an investment holding company.

	Notes	**2016** **HK$'000**
Net assets disposed of:		
Property, plant and equipment	*12*	**15,370**
Prepaid land lease payments	*13*	**5,153**
Inventories		**26,470**
Trade receivables		**8,170**
Prepayments and other receivables		**3,682**
Amount due from a related company		**2,192**
Cash and bank balances		**17,881**
Trade payables		**(18,870)**
Other payables and accruals		**(15,763)**
Amount due to a related company		**(898)**
Tax recoverable		**283**
Deferred tax liabilities	*24*	**(326)**
		43,344
Release of exchange fluctuation reserve upon disposal		**(9,914)**
Gain on disposal of subsidiaries	*5*	**18,811**
		52,241
Satisfied by:		
Consideration receivable		**52,000**
Cash		**241**
		52,241

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

28. DISPOSAL OF SUBSIDIARIES (Continued)

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

	2016 HK$'000
Cash consideration	241
Cash and bank balances disposed of	(17,881)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(17,640)

29. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

During the year, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$892,000 (2015: Nil).

30. CONTINGENT LIABILITY

At the end of the reporting period, the Group did not have any significant contingent liabilities.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases part of its direct sales shop 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	173	208
In the second to fifth years, inclusive	922	988
	1,095	1,196

31. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

At 31 March 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**38,126**	12,855
In the second to fifth years, inclusive	**140,353**	25,380
After five years	**27,471**	58,771
	205,950	97,006

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of the prior reporting period:

	2016 **HK$'000**	2015 HK$'000
Authorised, but not contracted for:		
Land and buildings	**–**	25,008

33. 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	2016 HK$'000	2015 HK$'000
Sales of tea products to:			
Ideality Group	*(i), (v)*	**27,442**	17,564
Purchases of tea products from:			
CLRT	*(iii), (v)*	**29,701**	27,198
FLRT	*(iii), (v)*	**34,123**	20,013
YTET	*(iii), (v)*	**–**	5,258
YLRT	*(iv), (v)*	**891**	2,524
LRTG	*(ii), (v)*	**45,406**	56,664
		110,121	111,657
Rental expense incurred to:			
YLRT	*(iv), (v)*	**512**	526

Notes:

(i) Ideality Group is beneficially owned as to 85.5% and 14.5% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

(ii) LRTG is beneficially owned as to 97% and 3% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

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

(iv) YLRT is beneficially owned as to 77% and 23% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

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

The above transactions in respect of the sales of tea products and the purchases of tea products entered into by the Group during the year ended 31 March 2016 also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) 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"), FLRT and YLRT, are unsecured, interest-free and have no fixed terms of repayment. YLRP is a wholly-owned subsidiary of 龍潤藥業集團有限公司 (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.

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

33. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

	2016 HK$'000	2015 HK$'000
Short term employee benefits	**11,916**	12,295
Post-employment benefits	**185**	188
	12,101	12,483

34. FINANCIAL INSTRUMENTS BY CATEGORY

The financial assets and liabilities of the Group as at 31 March 2016 and 2015 are loans and receivables and financial liabilities stated at amortised cost, respectively.

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments as at 31 March 2016 and 2015 approximate to their fair values.

Fair value hierarchy

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade payables, the 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 the current portion of finance lease payables 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 finance lease payables 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 2016 was assessed to be insignificant.

The fair values of the non-current portion of finance lease payables approximate to their carrying amounts as at 31 March 2016 and 2015.

36. 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 Group has no significant foreign currency exposure at 31 March 2016. The following table demonstrates the sensitivity at the end of the prior reporting period to a reasonably possible change in the Renminbi exchange rate, with all other variables held constant, of the Group's loss before tax.

	Increase/ (decrease) in exchange rate %	Decrease/ (increase) in loss before tax HK$'000
2015		
If Hong Kong dollar weakens against Renminbi	2.55	5,015
If Hong Kong dollar strengthens against Renminbi	(2.55)	(5,015)

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 47.2% (2015: 27.7%) 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 collectability 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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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:

	2016			
	On demand or within 1 year HK$'000	**In the second year HK$'000**	**3 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**28,455**	**–**	**–**	**28,455**
Other payables and accruals	**26,051**	**–**	**–**	**26,051**
Due to related companies	**644**	**–**	**–**	**644**
Due to directors	**7,945**	**–**	**–**	**7,945**
Finance lease payables	**311**	**311**	**155**	**777**
	63,406	**311**	**155**	**63,872**

	2015			
	On demand or within 1 year HK$'000	In the second year HK$'000	3 to 5 years HK$'000	Total HK$'000
Trade payables	35,996	–	–	35,996
Other payables and accruals	30,795	–	–	30,795
Due to related companies	1,803	–	–	1,803
Due to directors	12,978	–	–	12,978
Finance lease payables	180	–	–	180
	81,752	–	–	81,752

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 2016 and 2015.

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:

	2016 **HK$'000**	2015 HK$'000
Total liabilities	**98,272**	119,729
Total equity	**226,152**	241,538
Gearing ratio	**43.5%**	49.6%

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 **HK$'000**	2015 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**16**	21
Investments in subsidiaries	**136,884**	137,470
Total non-current assets	**136,900**	137,491
CURRENT ASSETS		
Due from subsidiaries	**69,051**	75,586
Prepayments, deposits and other receivables	**180**	181
Cash and cash equivalents	**77**	77
Total current assets	**69,308**	75,844
CURRENT LIABILITIES		
Due to a subsidiary	**5,991**	–
Accruals	**9,586**	9,056
Due to directors	**6,963**	12,005
Total current liabilities	**22,540**	21,061
NET CURRENT ASSETS	**46,768**	54,783
Net assets	**183,668**	192,274
EQUITY		
Issued capital	**72,476**	72,476
Reserves *(note)*	**111,192**	119,798
Total equity	**183,668**	192,274

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	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 2014	252,319	46,999	4,098	(193,017)	110,399
Profit for the year and total comprehensive income for the year	–	–	(4,098)	13,497	9,399
At 31 March 2015 and 1 April 2015	252,319	46,999	–	(179,520)	119,798
Loss for the year and total comprehensive loss for the year	–	–	–	(8,606)	(8,606)
At 31 March 2016	252,319	46,999	–	(188,126)	111,192

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.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 June 2016.

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				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**217,659**	256,439	286,514	271,215	344,258
PROFIT/(LOSS) BEFORE TAX	**4,799**	(207,441)	15,138	6,145	60,891
Income tax credit/(expense)	**(2,385)**	3,564	(230)	(5,223)	(28,294)
PROFIT/(LOSS) FOR THE YEAR	**2,414**	(203,877)	14,908	922	32,597
Attributable to:					
Owners of the Company	**2,414**	(203,877)	14,908	6,397	36,028
Non-controlling interests	**–**	–	–	(5,475)	(3,431)
	2,414	(203,877)	14,908	922	32,597

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**324,424**	361,267	591,623	561,046	539,931
TOTAL LIABILITIES	**(98,272)**	(119,729)	(146,768)	(130,975)	(122,824)
NON-CONTROLLING INTERESTS	**–**	–	–	–	3,177
	226,152	241,538	444,855	430,071	420,284