LongRun 龍潤

LONGRUN TEA GROUP COMPANY LIMITED

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

Annual Report 2017

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. He William (also known as 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

P.O. Box 10008,
Willow House,
Cricket Square,
Grand Cayman KY1-1001,
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.

AUDITOR

Certified Public Accountants
Moore Stephens CPA Limited
801-806 Silvercord,
Tower 1, 30 Canton Road,
Tsimshatsui, Kowloon,
Hong Kong.
(appointed on 4 October 2017)

LEGAL ADVISERS

As to Hong Kong law:

Stevenson, Wong & Co.
39/F, Gloucester Tower, The Landmark,
15 Queen's Road Central, Hong Kong.

Hastings & Co.
5/F, Gloucester Tower, The Landmark,
11 Pedder Street, Central, Hong Kong.

INTERNAL CONTROL ADVISER

Baker Tilly Hong Kong Risk Assurance Limited
2nd Floor, 625 King's Road,
North Point, Hong Kong.

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
Fubon Bank (Hong Kong) Limited
The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House,
Cricket Square,
Grand Cayman KY1-1001,
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 2017.

The year 2016 was yet another challenging year for the retail industry in The People's Republic of China (the "PRC"). The economic environment, both internationally and domestically, continued to exhibit additional uncertainty for the already weak consumer market. 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, the Group continues to promote Chinese tea culture and consumption in the PRC.

Looking forward, 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 industry by deploying more resources in product development so as to further expand the product portfolio to be distributed through such platform. 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, 10 October 2018

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 March 2017, the revenue of the Group decreased by approximately 43.2% to approximately HK$123,690,000 from approximately HK$217,659,000 for the year ended 31 March 2016. The gross profit of the Group decreased by approximately 32.7% to approximately HK$50,978,000 for the year ended 31 March 2017 from approximately HK$75,789,000 for the year ended 31 March 2016. The decrease in revenue was partly due to the absence of the contribution from the Group's PRC pharmaceutical manufacturing and distribution business following the disposal in November 2015 and partly due to the decrease in contribution from the tea business.

Selling and distribution expenses decreased by approximately 33.3% from approximately HK$59,138,000 for the year ended 31 March 2016 to approximately HK$39,448,000 for the year ended 31 March 2017. Administrative expenses decreased by approximately 4.4% from approximately HK$32,438,000 for the year ended 31 March 2016 to approximately HK$30,996,000 for the year ended 31 March 2017.

Other expenses increased to approximately HK$17,185,000 for the year ended 31 March 2017 from approximately HK$6,501,000 for the year ended 31 March 2016. The increase was mainly due to the increase in impairment losses of trade receivables.

For the year ended 31 March 2017, the Group recorded a one-off interest income of approximately HK$5,863,000 from a loan provided to an independent third party. In addition, the Group also recorded equity-settled share option expense of approximately HK$6,311,000 in relation to the grant of share options to certain eligible participants under the Scheme adopted by the Company on 17 August 2012 during the year.

Loss attributable to owners of the Company for the year ended 31 March 2017 was approximately HK$32,431,000 (2016: profit attributable to owners of the Company of HK$2,414,000).

The loss attributable to owners of the Company for the year ended 31 March 2017 was mainly due to (i) the absence of gain on disposal of subsidiaries recorded for the year ended 31 March 2016; (ii) the absence of contribution from the Group's PRC pharmaceutical manufacturing and distribution business; (iii) the increase in equity-settled share option expenses; and (iv) the increase in impairment loss of trade receivables.

Basic loss per share was HK2.24 cents for the year ended 31 March 2017 against basic earnings per share HK0.17 cent for the year ended 31 March 2016.

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 continued poor spending sentiment and confidence of consumer has still been affecting the consumer market in the PRC.

During the year under review, revenue from tea and other food products businesses was approximately HK$117,861,000 (2016: HK$168,814,000), accounting for approximately 95.3% (2016: 77.6%) of the Group's total revenue.

Management Discussion and Analysis

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. As at 31 March 2017, the Group managed a network comprising a total of over 600 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 operates three Mega Retail Outlets in Kunming, Yunnan Province with a gross total area over 10,000 square meters.

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
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 direct selling platforms in 2014. During the year under review, revenue generated from direct selling network was adversely affected by the consolidation and the enhanced regulations of the PRC direct selling industry.

Despite such industry consolidation, we believe that the direct selling industry represents good potential. We intended to deploy more resources in new product development and related distribution channel development.

Healthcare and Pharmaceutical Business

During the year under review, revenue from healthcare and pharmaceutical business was approximately HK$5,829,000 (2016: HK$48,845,000), accounting for approximately 4.7% (2016: 22.4%) of the Group's total revenue. The decrease in scale of this business segment was mainly due to the disposal of YNLF, the Company's indirect wholly-owned subsidiary principally engaging in the manufacture and distribution of pharmaceutical products in the PRC in November 2015.

Management Discussion and Analysis

PROSPECT

The economic development in the PRC has been gradually decelerating in recent years. Traditional retail sales of consumer goods in the PRC has been under tremendous pressure, showing a continuous slowdown. The discouragement of excessive hospitality such as gifting by the PRC government continued to affect the business of the Group.

According to the data released by the National Bureau of Statistics of China on 19 October 2017, China's gross domestic product ("GDP") grew at 6.9% year-on-year in the first three quarters of 2017, representing an increase of 0.2 percentage point over that of the same period of last year. The GDP grew at 6.9% year-on-year in both the first and the second quarters and at 6.8% in the third quarter of 2017, exhibiting that China's economy may be stabilized under the new normal economic condition. Looking ahead, it is likely that the general consumer market in China will continue to face uncertainties and remain challenging.

Despite the uncertainties, we will continue to focus on brand building, new product development and new distribution channel development. The Group is also actively exploring opportunities to set up our own tea manufacturing base in Yunnan Province with a view to reduce reliance on our suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2017, the Group had current assets of HK$339,114,000 (2016: HK$320,920,000) and cash and bank balances (including cash and cash equivalents and time deposits with original maturities of more than three months) of HK$142,032,000 (2016: HK$209,391,000). The Group's current liabilities as at 31 March 2017 were HK$83,755,000 (2016: HK$93,295,000).

As at 31 March 2017, total equity was HK$204,276,000 (2016: HK$226,152,000). The Group had finance lease payables of HK$876,000 as at 31 March 2017 (2016: HK$749,000). The gearing ratio as at 31 March 2017, being the ratio of total liabilities to total equity, was 67.3% (2016: 43.5%).

On 27 January 2017, the Company issued 5.5% convertible bonds which are denominated in Hong Kong dollars with an aggregate principal amount of HK$64,800,000 (the "Convertible Bonds") for cash to the independent third parties. The Convertible Bonds will be matured on the second anniversary of the date of issue and the conversion price is HK$0.27 per share subject to anti-dilutive adjustments. Neither the Company nor the holders of the Convertible Bonds may demand early redemption. And the Convertible Bonds bear interests at 5.5% per annum on the outstanding principal amount and would be payable semi-annually in arrears until the Convertible Bonds are converted or matured. Unless previously converted or cancelled, upon maturity of the Convertible Bonds, the Company will pay to the holders of the Convertible Bonds an amount equal to the aggregate of 100% of the principal amount of the Convertible Bonds outstanding and interest accrued and outstanding pursuant to the terms and conditions of the Convertible Bonds. Details of the Convertible Bonds are set out in the announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017 and 6 February 2017.

EMPLOYEES

As at 31 March 2017, the Group had 335 employees (2016: 413 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 the Scheme and offers discretionary bonus to its employees.

CONTINGENT LIABILITIES

As at 31 March 2017, 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 entities have 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 2017, there was no pledge of the Group's assets.

AUDIT FINDINGS

During the performance of the audit work of the Company's consolidated financial statements for the year ended 31 March 2017, Ernst & Young ("EY"), the previous auditors of the Company identified certain inconsistencies between the cash and bank balance and the bank confirmation (the "Inconsistencies") of Yunnan Longrun Tea Technology Company Limited ("YNLRT"), a wholly-owned subsidiary of the Company (the "Audit Findings"). After the management of YNLRT was informed of the Audit Findings, a preliminary internal review (the "Review") was conducted to investigate the relevant matters. Based on the Review, the management of YNLRT noted that the accounting staff of YNLRT had failed to make appropriate entries in the accounts of YNLRT to reflect a short term bridging loan amount advanced earlier than the drawdown date as set out in an agreement (the "Loan Agreement") entered into between YNLRT and an independent third party (the "Independent Third Party") on 1 September 2016, which resulted in the Inconsistencies. The management further noted that the reasons for entering into the Loan Agreement were (i) to facilitate the Independent Third Party to invest in Longrun tea products; and (ii) to make a reasonable interest income for the Group.

Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly") was engaged by the Company in June 2017 to perform certain agreed-upon procedures (the "AUP") to specifically address the Audit Findings. The AUP report was issued to the Board in November 2017. The Board noted the Group's internal control deficiencies identified by Baker Tilly and certain remedial measures have been adopted based on the recommendations of Baker Tilly to address the deficiencies. Details of which were set out in the Company's announcement dated 22 June 2018.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Chiu Ka Leung, aged 53, 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 Graduate School of Chinese Academy of Social Sciences in 1998. In 2006, Dr. Chiu obtained a doctorate degree of corporate management from 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. He William (an executive director of the Company).

Ms. Yeh Shu Ping, aged 70, 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, promotion and distribution of the Group's healthcare and pharmaceutical products as well as managing the day-to-day operation of the Group's healthcare and pharmaceutical 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 43, 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 Kunming Medical College (now known as "Kunming Medical University") 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 had 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, an executive director and controlling shareholder of the Company) and the brother-in-law of Dr. He William (an executive director of the Company).

Dr. He William (also known as Lu Pingguo), aged 45, 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. He 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. He 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. He is a brother-in-law of both Dr. Chiu Ka Leung (the Chairman of the Board, an executive director and controlling shareholder of the Company) and Mr. Jiao Shaoliang (an executive director of the Company).

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Lam Siu Hung, aged 58, 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. Mr. Lam has over 30 years' experience in accounting, auditing, taxation and corporate finance.

Mr. Guo Guoqing, aged 54, 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 Renmin University of China in 1998. He is currently a professor at School of Business of Renmin University of China and a director of 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., a company listed on Hong Kong Stock Exchange (stock code: 1513); and also a director of Gree Real Estate Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600185). Besides, Mr. Guo resigned as an independent director of Wangfujing Group Co., Ltd. (previously known as Beijing Wangfujing Department Store (Group) Co., Ltd.), a company listed on the Shanghai Stock Exchange (stock code: 600859) on 28 December 2016; and 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 a consultant of a Hong Kong law firm (the "Law Firm"). 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 52, 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.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Han Ping, Joseph, aged 47, 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 (an executive director and the Vice-chairman of the Company).

Mr. Lee Hing Cheung, Eric, aged 48, 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 48, 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 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 on the Stock Exchange (the "Listing Rules").

The Board considers that during the year ended 31 March 2017, the Company has applied the principles and complied with the code provisions set out in the CG Code, except for the code provision E.1.2. Key corporate governance principles and practices of the Company as well as the details of the foregoing deviation are summarized below.

A THE BOARD

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in the attainment of the objective of ensuring effective functioning and growth of the Group and enhancing value to investors. All the directors carry out their duties in good faith, take decisions objectively and act in the interests of the Company and its shareholders at all times.

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

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

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

Corporate Governance Report

A2. Board Composition

The composition of the Board as at 31 March 2017 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. He William (also known as 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 2017, 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 Officer

The roles and duties of the Chairman and the Chief Executive Officer of the Company are held by separate persons and have been clearly defined in writing in order to ensure a balance of power and authority and preserve a balanced judgement of views. Currently, Dr. Chiu Ka Leung takes up the role of Chairman of the Board, and is responsible for the management of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner; whereas Ms. Yeh Shu Ping is the Chief Executive Officer of the Company, taking care of the day-to-day management of the Group's healthcare and pharmaceutical business and implementing the Group's policies, strategic plans and business goals formulated by the Board in relation to the healthcare and pharmaceutical business.

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.

Subsequent to the year end, the publication of annual results and dispatch of annual report for the years ended 31 March 2017 and 2018, as well as the publication of interim results and dispatch of interim report for the six months ended 30 September 2017, are deferred due to the Audit Findings. Accordingly, the Company failed to hold its annual general meeting within the times stipulated under the Listing Rules and the Articles in year 2017, and that Mr. Jiao Shaoliang and Dr. He William did not retire by rotation at least once every 3 years in accordance with code provision A.4.2. At the forthcoming annual general meeting of the Company (the "AGM"), Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. He William, Mr. Kwok Hok Lun and Dr. Liu Zhonghua shall retire, and being eligible, will offer themselves for re-election.

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 2017, 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. He William, 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 2017 are set out below:

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

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 2017.

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, in the year ended 31 March 2017 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. Since its establishment in July 2005, 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 overall management and 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 2017, 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;
- 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;
- Recommendation of the grant of share options to the Company's directors and the senior management after considering their duties, responsibilities and contributions; and
- Renewal of the service agreements between the Company and its executive directors.

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 2017 is set out below:

Remuneration band (HK$)	Number of individual
HK$2,300,001 to HK$2,900,000	1
HK$1,700,001 to HK$2,300,000	1
HK$1,100,000 to HK$1,700,000	1

Details of the remuneration of each director of the Company for the year ended 31 March 2017 are set out in note 7 to the consolidated financial statements contained in this annual report.

B3. Nomination Committee

The Nomination Committee comprises a total of five members, being the Chairman of the Board, namely Dr. Chiu Ka Leung, and the four independent non-executive directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua. Accordingly, a majority of the members are independent non-executive directors. The chairman of the Nomination Committee is Dr. Chiu Ka Leung.

The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and recommending any changes to the Board; identifying qualified and suitable individuals to become Board members and selecting and making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular, the Chairman and the Chief Executive Officer 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 2017, 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 29 August 2016 (the "2016 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 auditor.

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 2017, 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 consolidated financial statements, results announcement and report for the year ended 31 March 2016, 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 auditor;

– Review and discussion of the continuing connected transactions of the Company for the year ended 31 March 2016; and

– Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 September 2016 and the related accounting principles and practices adopted by the Group.

The external auditor 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 auditor.

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

The directors of the Company have acknowledged their responsibilities for preparing the consolidated financial statements of the Group for the year ended 31 March 2017.

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. RISK MANAGEMENT AND INTERNAL CONTROLS

Risk management and internal control

The Board recognizes its responsibility for maintaining an adequate and sound enterprise risk management and internal control system and through the Audit Committee and, if necessary, an external firm of qualified accountants to provide internal control services, conducts reviews on the effectiveness of these systems at least annually, covering material controls, including financial, operational, compliance and strategic risk control functions. The Board understands that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year under review, the Board, through the Audit Committee, conducted review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience and training programmes of the Group's accounting, internal audit and financial reporting functions are adequate.

It was also noted that the loan transaction was not reflected in the Group's interim condensed consolidated financial statements for the six months ended 30 September 2016, which were authorised for issue by the board of directors on 18 November 2016.

During the performance of the audit work of the Company's consolidated financial statements for the year ended 31 March 2017, Ernst & Young identified certain inconsistencies in the financial information and supporting documents obtained attributable to the loan transaction. The publication of annual results and dispatch of annual report for the years ended 31 March 2017 and 2018, as well as the publication of interim results and dispatch of interim report for the six months ended 30 September 2017, are therefore deferred until the date of this annual report. Accordingly, the Company was not able to comply with the financial reporting provisions under Rules 13.46, 13.47, 13.48 and 13.49 of the Listing Rules.

In this respect, the Company appointed Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly"), an external firm of professional internal control consultants, to assist in identifying and assessing the risks of the Group through a series of workshops and interviews, and independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems. For details of the review results of Baker Tilly, please refer to the section headed "Major System Deficiencies" below.

D. RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

Our Enterprise Risk Management Framework

The Group fine-tuned its enterprise risk management framework in 2017. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversees risk management and internal audit functions.

Major System Deficiencies

During the year under review, the Audit Committee of the Company engaged Baker Tilly to conduct an Agreed-Upon Procedures ("AUP") review with respect to certain findings by Ernst & Young ("EY"), and Baker Tilly identified a number of major system weaknesses in regard to the Company's internal controls, in respect of which the Company has taken steps to adopt rectification measures. Such system weaknesses included the following:

1. The loan transaction between the Company and the third party borrower was not properly approved by the Board.

2. The date of fund transfer from the Company to the third party borrower did not strictly follow the terms of the Loan Agreement between both parties.

3. The Company omitted to perform size test and to announce the loan transaction as per the requirement of Chapter 14 "Notifiable Transactions" of the Listing Rules in a timely manner.

4. Some fund transfer transactions were not properly accounted for by the Company in a timely manner, although no negative impact on the financial performance of the Company was noted.

Among the remedial measures taken by the Company, an internal control committee was set up by the Company for enhancing the internal control procedures and corporate governance of the Group on 1 August 2018. Further details of the Audit Findings and the remedial measures taken by the Company are also set out in the Company's announcements dated 30 June 2017, 15 August 2017, 13 September 2017, 18 September 2017, 20 September 2017, 17 October 2017, 28 February 2018, 22 June 2018, 10 August 2018 and 24 August 2018 and also the Company's circular dated 11 September 2017.

Corporate Governance Report

D. RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

Our Risk Control Mechanism

The Group adopts a "three-layer" corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance team and independent internal audit outsourced to and conducted by Baker Tilly. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk related parties have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensuring that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Baker Tilly has assisted the Board and the Audit Committee in performing internal audit function and ongoing monitoring of the risk management and internal control systems. Deficiencies and ineffectiveness in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure that prompt remediation and subsequent actions are taken to improve the situations.

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

The Company has also developed its disclosure policy which provides a general guide to the Company's directors, officers, management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

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 2017, Mr. Hui has taken not less than 15 hours of relevant professional training.

F. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the Company's consolidated financial statements for the year ended 31 March 2017 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to the Company's auditors in respect of audit services and non-audit services for the year ended 31 March 2017 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** (HK$)
Audit services	
– by Moore Stephens CPA Limited:	
audit fee for the year ended 31 March 2017	930,000
– by Ernst & Young (previous auditor):	
audit fee for the year ended 31 March 2017	1,000,000
Non-audit services	
– by Ernst & Young:	
interim review for the six months ended 30 September 2016	300,000
– by Moore Stephens CPA Limited:	
agreed-upon procedures on the revised interim result announcement for the six months ended 30 September 2016*	80,000
TOTAL:	2,310,000

* *The amount is recorded in the consolidated financial statements for the year ended 31 March 2018.*

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) 3602 2868
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 meetings 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 2016 AGM due to another business engagement. In view of his absence, Dr. Chiu had arranged for Mr. Jiao Shaoliang, the Company's executive director who is well versed in the Group's business activities and operations, to attend and chair the 2016 AGM and communicate with the shareholders. The Company Secretary and other senior management were also available to answer questions from the shareholders at the 2016 AGM. No question was raised by any shareholders during the 2016 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 this annual report and the audited consolidated financial statements for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 1 to the consolidated 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 34 to the consolidated 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. The relevant discussions in the aforesaid sections form part of this report.

RESULTS AND DIVIDENDS

The losses of the Group for the year ended 31 March 2017 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 44 to 111.

The Board does not recommend the payment of a dividend for the year ended 31 March 2017 (2016: 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 consolidated financial statements, is set out on page 112. This summary does not form part of the audited consolidated financial statements of the Group for the year ended 31 March 2017.

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 consolidated financial statements.

SHARE CAPITAL AND CONVERTIBLE BONDS

2,000,000 ordinary shares of the Company were issued in the year ended 31 March 2017 for the total consideration of HK$600,000 as a result of the exercise of share options under the Company's share option scheme. Details of the shares issued in the year ended 31 March 2017 are set out in note 24 to the consolidated financial statements.

Details of the Company's share capital and Convertible Bonds are set out in notes 24 and 22 to the consolidated financial statements respectively.

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 36 to the consolidated financial statements and in the Consolidated Statement of Changes in Equity on page 48 respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$88,480,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$238,650.

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.

Please refer to the Environmental, Social and Governance ("ESG") Report on pages 36 to 40 for further details of the Group's ESG-related risks, environmental policies and performance and other ESG information.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, purchases from the Group's five largest suppliers accounted for approximately 99% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 45%.

During the year under review, sales to the Group's five largest customers accounted for approximately 42% of the total sales for the year and sales to the largest customer included therein amounted to approximately 11%.

Dr. Chiu Ka Leung, who is a director of the Company and has an attributable interest of 55.51% in the Company's share capital, had beneficial interests in the five largest suppliers which accounted for approximately 99% of the total purchases of the Group. Dr. Chiu Ka Leung also had beneficial interests in the largest customer which accounted for approximately 8% 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 99% of the total purchases of the Group. Mr. Jiao Shaoliang also had beneficial interests in the largest customer which accounted for approximately 8% 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.

Report of the Directors

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. He William (also known as Lu Pingguo)

Independent non-executive directors:

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

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 2017, 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 AGM has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme operated by the Company as disclosed in the section headed "SHARE OPTIONS" and in note 25 to the consolidated financial statements, neither at the end of nor at any time during the year there subsisted any arrangement to which the Company, any of its subsidiaries or holding companies, 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 27 and 31 to the consolidated financial statements, neither director nor an entity connected with 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, any of its subsidiaries or holding companies 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 27 and 31 to the consolidated 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 and at the date when the directors' report is approved.

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

As at 31 March 2017, the interests held by the directors and the chief executive of the Company and their respective associates in the shares, debentures and underlying shares of the Company and its associated corporations 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:

(A) Long position in ordinary shares of the Company

Name of director	Capacity	Number of ordinary shares	Percentage+ of the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	805,804,500	55.51%
Ms. Yeh Shu Ping	Beneficial owner	36,005,500	2.48%
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	0.08%
Dr. He William (also known as Lu Pingguo)	Beneficial owner	16,880,000	1.16%

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

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

Name of director	Capacity	Number of underlying shares	Percentage+ of underlying shares over the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	1,400,000	0.10%
Ms. Yeh Shu Ping	Beneficial owner	10,000,000	0.69%
Mr. Jiao Shaoliang	Beneficial owner	10,000,000	0.69%
Dr. He William (also known as Lu Pingguo)	Beneficial owner	10,000,000	0.69%
Mr. Lam Siu Hung	Beneficial owner	1,000,000	0.07%
Mr. Guo Guoqing	Beneficial owner	1,000,000	0.07%
Mr. Kwok Hok Lun	Beneficial owner	1,000,000	0.07%
Dr. Liu Zhonghua	Beneficial owner	1,000,000	0.07%

Note: Details of the above share options granted by the Company are set out in the section headed "SHARE OPTIONS" below.

\+ *The percentage represents the number of ordinary shares/underlying shares involved divided by the number of the Company's issued shares as at 31 March 2017.*

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. Both of International Health Association (HK) Limited and Hong Kong Health Journal Limited were dissolved by deregistration on 13 October 2017.

Save as disclosed above and in the section headed "SHARE OPTIONS" below, as at 31 March 2017, none of the directors or chief executive of the Company or any of their associates 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 AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 March 2017, the following persons/corporations (other than directors or chief executive of the Company) who had interests or short position of 5% or more of the issued shares and underlying 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:

(A) Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares	Percentage+ of the Company's issued share capital
Guo Jinxiu	Interest held by spouse *(Note 1)*	805,804,500	55.51%
Chen Fang	Beneficial owner	110,000,000	7.58%
徐永鋒	Beneficial owner	100,000,000	6.89%
Law Fei Shing	Interest of controlled corporations *(Note 2)*	764,215,000	52.65%
True Promise Investments Limited	Interest of controlled corporation *(Note 2)*	764,215,000	52.65%
Excel Precise International Limited	Person having a security interest in shares *(Note 2)*	764,215,000	52.65%

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

Name	Capacity	Number of underlying shares	Percentage+ of underlying shares over the Company's issued share capital
Guo Jinxiu	Interest held by spouse *(Note 1)*	1,400,000	0.10%

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 AND UNDERLYING 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/underlying shares involved divided by the number of the Company's issued shares as at 31 March 2017.*

Save as disclosed above, as at 31 March 2017, no person, other than the directors or chief executive of the Company whose interests are set out in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES" above, had registered an interest or a short position in the shares, underlying shares or debentures of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Report of the Directors

SHARE OPTIONS

As set out in note 25 to the consolidated financial statements, the Company currently operates a share option scheme adopted 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 of the Company (including independent non-executive directors), other employees of the Group, suppliers of goods or services to the Group, customers of the Group and 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. Details of the movements of the Company's share options granted under the Scheme during the year ended 31 March 2017 are as follows:

	Number of share options								
Name or category of option holder	**Outstanding as at 1 April 2016**	**Granted during the year** *(Note 1)*	**Exercised during the year** *(Note 2)*	**Lapsed during the year**	**Cancelled during the year**	**Outstanding as at 31 March 2017**	**Date of grant of share options**	**Exercise period of share options**	**Exercise price per share** *(Note 3)*
Directors									
Executive directors:									
Dr. Chiu Ka Leung	–	1,400,000	–	–	–	1,400,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Ms. Yeh Shu Ping	–	10,000,000	–	–	–	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Mr. Jiao Shaoliang	–	10,000,000	–	–	–	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Dr. He William (also known as Lu Pingguo)	–	10,000,000	–	–	–	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Independent non-executive directors:									
Mr. Lam Siu Hung	–	1,000,000	–	–	–	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Mr. Guo Guoqing	–	1,000,000	–	–	–	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Mr. Kwok Hok Lun	–	1,000,000	–	–	–	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Dr. Liu Zhonghua	–	1,000,000	–	–	–	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Subtotal for directors:	–	35,400,000	–	–	–	35,400,000			
Employees of the Group									
In aggregate	–	18,000,000	(2,000,000)	–	–	16,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Subtotal for employees:	–	18,000,000	(2,000,000)	–	–	16,000,000			
TOTAL:	–	53,400,000	(2,000,000)	–	–	51,400,000			

SHARE OPTIONS (Continued)

Notes:

1. The closing price of the Company's shares immediately before the date of grant of share options on 25 November 2016 was HK$0.30.

2. The weighted average closing price of the Company's shares immediately before the date of exercise of share options on 9 December 2016 was HK$0.3.

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

As at the date of this annual report, the total number of securities of the Company available for issue under the Scheme was 142,952,000 shares, representing approximately 9.85% of the issued share capital of the Company as at the date of this annual report.

ISSUE OF CONVERTIBLE BONDS

On 9 December 2016, the Company entered into the placing agreement (the "CB Placing Agreement") with Supreme China Securities Limited, pursuant to which the Company had agreed to appoint Supreme China Securities Limited as the placing agent for the purpose of procuring not less than six independent professional, institutional or other investors as the placees to subscribe in cash for the convertible bonds in a maximum aggregate principal amount of up to HK$64,800,000 issued by the Company on the terms and subject to the conditions set out in the CB Placing Agreement. The Board considers that the CB Placing Agreement represented an opportunity to potentially enlarge and diversify the shareholder base of the Company and to raise further working capital for the Group.

The completion of the CB Placing Agreement took place on 27 January 2017. Convertible bonds in the principal amount of HK$64,800,000 (the "Convertible Bonds") have been issued by the Company to 7 placees. The Convertible Bonds can be converted into 240,000,000 ordinary shares of the Company at any time on or before 5 business days immediately prior to 28 January 2019 at a fixed conversion price of HK$0.27 subject to certain anti-dilutive adjustments at the discretion of the holders that are independent third parties. The net proceeds from issuing the Convertible Bonds of HK$62,967,000 were intended to be used for the Company's possible future investments in the healthcare sector and for the settlement of the Group's general and administrative expenses. As at the end of the financial year and the date when the directors' report is approved, no notice has been received from the holders requesting conversion. If all of the Convertible Bonds outstanding as at the end of the year were converted into ordinary shares of the Company at the conversion price of HK$0.27, 240,000,000 ordinary shares of the Company will be issued.

Please also refer to note 22 to the consolidated financial statements and announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017 and 6 February 2017 (the "Announcements") for further details of the Convertible Bonds.

UPDATE ON USE OF PROCEEDS IN RELATION TO FUND RAISING ACTIVITIES

The Company would like to provide the update in respect of the use of the net proceeds in relation to the past fund raising activities during the financial year 2017 as at 31 March 2017:

Reference is made to the Announcements in relation to placing of and issue of convertible bonds. Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Announcements.

Intended use of proceeds (as disclosed in the announcement of the Company dated 19 January 2017)	Actual use of proceeds during the financial year 2017	Intended use of proceeds after the financial year 2017
An amount of net proceeds of HK$62,967,000 was raised from issue of HK$64.8 million 5.5% interest Convertible Bonds in January 2017 and the net proceeds were intended to use as follows:		
(a) an amount of approximately HK$27.8 million to be used for the possible future investments in the healthcare sector, in particular, in the manufacturing and/or trading of healthcare products such as pharmaceutical products, dietary supplements and health food; and	an amount of HK$27.8 million has not been utilised.	Such intended use of proceeds will remain unchanged.
(b) an amount of approximately HK$35 million to be used for the settlement of the Group's general administrative expenses (including staff and related costs, legal and professional fees, finance costs, rental expenses and other administrative expenses) for the next 18 months from the date of the announcement of the Company dated 19 January 2017.	an amount of HK$35 million has not been utilised.	Such intended use of proceeds will remain unchanged.

EQUITY-LINKED AGREEMENTS

Other than the Scheme and the CB Placing Agreement as disclosed above and in notes 22 and 25 to the consolidated 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.

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.

CONNECTED TRANSACTIONS

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

(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 exclusive supply of high quality of 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; or (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 annual caps of the amount of purchase of the Tea Products pursuant to the Purchase Agreement 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 16 June 2016 for each of the three financial years ended/ending 31 March 2017, 31 March 2018 and 31 March 2019 was HK$148,000,000, HK$166,000,000 and HK$186,000,000 respectively. For the year ended 31 March 2017, the amount of fees paid to LRTG under the Transaction 1 amounted to HK$68,836,000, which was within the above annual cap amount for the financial year ended 31 March 2017 of HK$148,000,000. Further details of the Transaction 1 are included in note 31(a) to the consolidated financial statements.

* *For identification purposes only*

CONNECTED TRANSACTIONS (Continued)

(2) Sale of Tea Products

On 16 April 2014, YNLR entered into a sales agreement (the "Sales Agreement") with 理想科技集團有限公司 (Ideality Technology Group Company Limited*) ("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 and tea-related food products (the "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 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 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 ended 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 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 Products. Before entering into any purchase order, the Company would also compare the prices of the relevant Products charged under at least two comparable transactions offered to independent third parties.

The annual cap of the amount of sale of the Products by YNLR to Ideality Group arising from the Transaction 2 (as supplemented by the Supplemental Sales Agreement) approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 16 December 2014 for the financial year ended 31 March 2017 was HK$40,000,000. For the year ended 31 March 2017, the amount of sales of the Products received from Ideality Group under the Transaction 2 amounted to HK$9,553,000, which was within the above annual cap amount of HK$40,000,000. Further details of the Transaction 2 are included in note 31(a) to the consolidated financial statements.

The independent non-executive directors of the Company have reviewed the Transactions for the year ended 31 March 2017 and confirmed that the Transactions had been entered into by the Group: (a) in its ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the Purchase Agreement/the Sales Agreement/Supplemental Sales Agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Moore Stephens CPA Limited, the Company's auditor, was 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. Moore Stephens CPA Limited has issued the unqualified letter containing their findings and conclusions in respect of the Transactions disclosed above by the Group in accordance with the Listing Rules. A copy of the auditor's 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 directors have interested in a business which is likely to compete, either directly or indirectly, with the businesses of the Group, details of which are set out below:

(1) 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; and

(2) Dr. Chiu Ka Leung and Mr. Jiao Shaoliang have a controlling interest in 雲南龍發製藥股份有限公司 (Yunnan Longfar Pharmaceutical Company Limited*) ("YNLF"), which is engaged in the development, manufacture and distribution of Chinese pharmaceutical products in Mainland China.

The Group manufactures and distributes pharmaceutical and healthcare products 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. Given the difference in market presence, the directors considered that the operations of YPYP and YNLF will not affect the Group's pharmaceutical business.

Save as disclosed above, all directors have confirmed that neither themselves nor their respective associates (as defined in the Listing Rules) had held any position or had interest in any businesses or companies that were or might be materially competing with the business of the Group, or gave rise to any concern regarding conflict of interests during the year under review.

AUDITORS

Upon the passing of the special resolution and ordinary resolution proposed at the Company's extraordinary general meeting held on 4 October 2017, Ernst & Young was removed and Moore Stephens CPA Limited was appointed as auditor of the Company. The consolidated financial statements of the Group for the year ended 31 March 2017 were audited by Moore Stephens CPA Limited.

Moore Stephens CPA Limited will retire and a resolution will be proposed at the AGM for the re-appointment as auditor of the Company.

ON BEHALF OF THE BOARD

Chiu Ka Leung
Chairman

Hong Kong
10 October 2018

* *For identification purposes only*

Environmental, Social and Governance Report

1. ABOUT THE REPORT

This is the first Environmental, Social and Governance Report (the "ESG Report") of Longrun Tea Group Company Limited (the "Company") and its subsidiaries (collectively the "Group" or "We"). The ESG Report summarizes the efforts and achievement made by the Group in corporate social responsibility and sustainable development. As for the information of corporate governance, please refer to the "Corporate Governance Report" on pages 11 to 23 of the Annual Report of 2017.

1.1 Scope of the Report

The ESG Report focuses on the sustainability approach and performance in the environmental and social aspects of an indirect wholly-owned and major revenue generating subsidiary of the Company, 雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited) ("YNLR") in the People's Republic of China (the "PRC"), during the reporting period from 1 April 2016 to 31 March 2017 (the "Year"). YNLR is principally engaged in packing and trading of tea products. The Group will continue to strengthen information collection in order to enhance the performance in environmental realm and to disclose relevant information in sustainable development.

1.2 Reporting Standard

The ESG Report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Main Board Listing Rules on the Stock Exchange of Hong Kong Limited.

1.3 Stakeholder Engagement

The engagement of our employees from different divisions of the Group helps us recognize our sustainability performance. The diligently collected and carefully analyzed data underscores not only the Group's sustainable initiatives for the Year, but also the Group's short-term and long-term sustainability strategy. The Group will continue to increase the involvement of stakeholders via constructive conversation with a view to charting a course for long term prosperity.

1.4 Information and Feedbacks

For detailed information about the environmental, social and corporate governance, please refer to the official website (http://www.longruntea.com) and the 2017 Annual Report of Longrun Tea Group Company Limited. Your opinions will be highly valued by the Company. If you have any advices or suggestions, please email to info@longfar.com.hk.

2. PROTECTING OUR ENVIRONMENT

As a responsible enterprise, the Group is committed to protecting the surrounding environment and reducing its environmental impact during business operation.

2.1 Emissions

It is YNLR's firm belief that environmental commitment is more than mere operational compliance to the relevant local laws and regulations. Therefore, apart from fulfilling legal obligation in respect of environmental protection and resources conservation, such as the Environmental Protection Law of the PRC, YNLR has moved further to establish sound mechanism that aims for lower emission, higher resource efficiency, and stronger environmental awareness of employees. With an environmentally friendly focus, various policies that drive waste minimization through recycling and reusing materials as well as reducing use of non-renewable resources have been introduced. YNLR also conducts regular environmental inspection to monitor the implementation of environmental protection measures, such as disposal of waste at designated area. The presence of emergency handling policy, which allows prompt response in case of any severe pollution, also highlights our environmental consciousness.

The domestic sewage and industrial wastewater from YNLR are filtered in septic tanks and undergone treatment in wastewater treatment plant before discharging into municipal sewage pipeline network. With respect to exhaust gas, YNLR engages qualified unit to conduct testing regularly to ensure that the exhaust gas emission meets the relevant emission standard. The general waste produced by YNLR is collected and processed by the local environmental hygiene department while the recyclable waste generated from the production process, such as cartons and plastic, is handed over to qualified recycling company for further handling.

2.2 Energy Conservation

As part of the initiatives to reduce energy consumption of lighting system, YNLR requires lighting to be switched off when not in use, maximizes the use of natural light and divides the office area into different light zones in order to independently control lighting switches. YNLR also installs motion sensors in areas not frequently used and reduces unnecessary lighting fixtures, in order to lower energy waste. Moreover, YNLR cleans light fixtures regularly and adopts energy-efficient lighting to increase the energy efficiency of lighting system. YNLR also allows employees to dress in casual attire in office every Friday and in hot weather, so as to reduce the energy consumption.

2.3 Waste Reduction

Waste reduction also has a key part to play in YNLR's environmental commitment. Apart from the collection and recycling of waste paper, metals, plastics and battery, YNLR also, encourages its employees to reuse envelopes, folder, file cards and other stationery and uses refillable pens, as well as rechargeable batteries and recycled toner. For the sake of reducing waste disposal, YNLR works closely with electronics companies to recycle obsolete computers and other electronic waste and evaluates the usage of material from time to time to avoid overstock.

2.4 Paperless Office

To promote a paperless office and reduce the carbon emission, YNLR always promotes the use of electronic systems to substitute paper-based office administration systems ("OA System") and electronic means for information dissemination wherever possible. YNLR sets up waste paper collection boxes, purchases printing paper with recycled content and regularly evaluates paper consumption. Employees are recommended to set the computers and printers to default duplex and economical modes and use smaller fonts and line spacing for inevitable printings to lower the paper consumption. Notice is also placed on the side of printer to remind employees to use double-sided photocopying and reuse paper.

2.5 Green Operation

YNLR is mindful of its obligation to reduce carbon emission during its operation, thus it strives to minimize the product packaging and optimize the route planning for transportation and product delivery. Endeavoured to reduce the carbon footprint, YNLR sets up a fleet management system, encourages the use of public transportation and replaces unnecessary overseas business travel with video conferencing whereas direct flights are considered for unavoidable business travel to lighten carbon emission.

To minimize the water consumption, YNLR uses water-efficient equipment, reduces the water pressure to the lowest level and carries out regular hidden water leakage tests and water meter readings check. Leakage, dripping taps or abnormal water usage investigated will be tackled by YNLR in a prompt and timely manner. In addition, water-saving notice is also displayed in the toilet to remind employees to turn off the faucet tightly.

3. CARING OUR EMPLOYEES

Long-term growth and sustainability of the Group lie in employee engagement and a talented workforce, which we strive to achieve by placing growing emphasis on the interests and rights of our employees and creating a comfortable and safe working environment for employees.

3.1 Employment and Welfare

To protect the rights of employees, the Group complied with the relevant laws and regulations, such as the Labour Law of the PRC and Labour Contract Law of the PRC, and provided attractive welfare for our employees.

During the recruitment process, job applicants who meet the job requirement are entitled to equal interview opportunities and are not discriminated on the basis of gender, race, religion, age and other factors. To prevent child labour, newly recruited employees are required to provide copy of identification documents for age verification. Signing of employment contract which clearly states the job position of employees is also an essential part of our employment process to prevent forced labour. Upon the receipt of resignation, exit interview is arranged and payment of outstanding wages is made on time as required by the relevant laws and regulations.

To ensure sufficient rest time for our employees, the working hours are in compliance with the relevant laws and regulations and clearly stated in employment contract. As part of our effort to retain talents, remuneration package for employees are reviewed periodically on the basis of industry practice and performance of the Group and individual employees. During the Year, YNLR has organized various activities for employees, such as outward bound and basketball game, to promote the concept of work-life balance.

3.2 Health and Safety

To maintain a healthy and safe workplace for employees, the Group strictly abides by the local laws and regulations related to occupational health and safety. Safety procedures for high risk projects and necessary protective equipment are available to protect employees from injuries and health risks. With a vision of accident-free workplace, YNLR employs various measures to strengthen the safety awareness of employees and conducts equipment maintenance from time to time. Clear guideline for handling emergencies is also formulated in case of accident.

3.3 Training and Development

A talented workforce is of paramount importance to the continued success of YNLR and therefore, the Group invests resources in employees' career development. Apart from receiving regular training programmes and plans, employees also take part in internal training, such as on-the-job training. Our support of knowledge enhancement and skill consolidation is also highlighted by the provision of education subsidies to encourage employees to enroll in external courses in disciplines related to their work. YNLR also paves a clear career path for employees. Appraisal is conducted regularly to review the performance of employees and employees with outstanding performance are given promotion opportunities.

4. OPERATING PRACTICES

The strength of our business represents our responsible and meticulous manner at every aspects of our business operation, from supply chain, product responsibility to anti-corruption, underpinned by our unwavering conviction to deliver quality products to customers.

4.1 Supply Chain Management

During the selection of suppliers, the Group adheres to the requirements of the nation and the industry, as well as taking into account of its raw materials requirement. The Group's selection of suppliers also involves careful consideration of product quality, product safety, location of suppliers and delivery time to minimize the social risks in the supply chain.

4.2 Quality Assurance

The Group's goal is to provide quality products to customers. To attain this goal, we not only abide by relevant local laws and regulations in regard to product quality and safety, such as the Product Quality Law of the PRC, but also endeavour to provide safe and healthy products through establishment of stringent quality control and examination procedures.

All products are stored in dry, ventilatory and organized condition with regular checks conducted by YNLR to ensure the products are kept in good condition. In case of any severe quality or safety issues that arise after sales, YNLR will recall the defective products promptly or take actions to lessen the impact to the society.

4.3 Management on Advertising

To promote products to our potential customers, we conduct marketing activities and promotional events through online platforms, social media, exhibitions, etc. In strict compliance with the laws and regulations related to advertisement and labelling, such as the Advertisement Law of the PRC, YNLR demands all information and descriptions of marketing and advertising, including public sales to be legal, accurate and truthful.

4.4 Protection of Customer Data and Privacy

In order to protect customer data and privacy, the Group closely observes the relevant laws and regulations, as well as implementing policies to manage confidential information and improve cyber security. Employees who have access to confidential information are required to sign non-disclosure agreement that forbids disclosure of information to other parties without express consent of the Group. Moreover, training and tips related to privacy and cyber security are also provided to enhance employees' privacy awareness.

4.5 Complaint Handling

The establishment of clear procedure for handling customers' complaints reflects our emphasis on customer feedbacks which helps us improve product quality and services and thereby, drives long-term growth of the Group. Customers may lodge complaints by telephone, in writing and via online platform. YNLR ensures that all complaints treated in a timely and consistent manner. Meanwhile, our employees maintain a good communication with the customers to understand their needs. Measures are taken to solve the issues, as well as to improve our performance.

4.6 Anti-corruption

The Group strictly adheres to the anti-corruption laws and regulations, such as the Criminal Law of the PRC, and upholds its business integrity throughout the operation. Our procurement process requires suppliers to follow the relevant laws and regulations and prohibits bribery for business advantages or any improper purpose. Moreover, employees are required to follow the code of conduct so as to prevent conflicts of interest, bribery and other unlawful behaviour, and misconduct. Whistle blowing system is also established for employees to report suspected bribery, corruption or misconducts to the senior management. Employee who breaches the Group's anti-corruption policy will face disciplinary action, which could result in disciplinary actions such as dismissal.

5. CONTRIBUTING TO OUR COMMUNITY

In pursuit of business development, the Group also supports various philanthropic initiatives. For example, YNLR makes donations to help the disadvantaged and offers sponsorship to education institutions. In the Year, YNLR has organized tree planting event and volunteer activity to contribute the society.

Independent Auditor's Report

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大華馬施雲
會計師事務所有限公司

Independent Auditor's Report to the Members of
Longrun Tea Group Company Limited
(Incorporated in Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We have audited the consolidated financial statements of Longrun Tea Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 111, which comprise the consolidated statement of financial position as at 31 March 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2017 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

There was a loan receivable and corresponding interest receivable with the carrying amount of HK$155,138,000 (equivalent to RMB137,570,000) and HK$5,917,000 (equivalent to RMB5,247,000) which were only recorded in the Group's consolidated statement of financial position in May 2017 (the "Loan"). Prior to the Loan being recognised as a loan receivable in the Group's consolidated statement of financial position, the said balance of RMB137,570,000 was included in the bank balances account in the accounting books of the Group and the Loan together with the interest receivable incurred thereon were then included as a loan receivable in the Group's consolidated financial position as at 31 March 2017. According to the explanation of directors of the Company, the agreement for the Loan was entered into by a subsidiary of the Company (the "Subsidiary") on 1 September 2016, with the Loan being granted to an independent third party (the "Borrower") for a period from 1 October 2016 to 20 March 2017 with a contractual interest rate of 9% per annum.

Independent Auditor's Report

BASIS FOR DISCLAIMER OF OPINION (Continued)

It was also noted that the Loan was not reflected in the Group's interim condensed consolidated financial statements for the six months ended 30 September 2016, which were authorised for issue by the board of directors of the Company on 18 November 2016.

The directors of the Company explained that the omission of recording the Loan mentioned above which led to significant discrepancies of the bank balances as recorded in the accounting books and the bank statements and confirmations was caused by certain accounting staff of the Subsidiary. These staff were suspended from their duties in May 2017 and dismissed in September 2017. The Loan was asserted by two directors of the Subsidiary as being advanced to the Borrower who is independent of the Group, any of the directors of the Company or any of the substantial shareholders of the Company. Subsequent to the year ended 31 March 2017 and up to the date of approval of these consolidated financial statements, the Loan and corresponding interest were fully repaid.

The directors of the Company believed that the omission of recording the Loan was due to internal control weaknesses associated with the granting, execution and recording of the Loan. An independent firm of internal control consultant was then engaged by the board of directors of the Company to carry out certain procedures to check the causes of the omission. The work of the internal control consultant was completed in November 2017. The findings reported by the internal control consultant included, but not limited to, (i) no authorization for granting of the Loan by the board of directors of the Company (the Loan was only approved by two directors of the Subsidiary, who are also directors of the Company); and (ii) the Loan was not executed in the way as stated in the terms of the relevant agreements.

Given the circumstances described above and the significance of the Loan to the consolidated financial statements, we were unable to perform audit procedures to satisfy ourselves regarding the nature and reasons for the discrepancies described above, particularly the omission of recording the Loan and interest in the Group's accounting books and consolidated financial statements until the discovery of discrepancies in the bank balances by the predecessor auditors of the Company in May 2017. The scope of our audit work was limited and we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about these matters, as well as the underlying commercial reasons of entering into the Loan.

Any adjustments that might have been found necessary from any of the above matters may have a significant effect on the Group's financial position as at 31 March 2017 and of its financial performance and cash flows for the year ended 31 March 2017, and the related disclosures in the respective consolidated financial statements.

Considering the significance of the matters described above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Group's consolidated financial statements.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 March 2016, were audited by another auditor who expressed an unmodified opinion on those statements on 11 June 2016.

Under the same date of approval of these consolidated financial statements, we have also reported on the consolidated financial statements of the Group for the year ended 31 March 2018. Accordingly, the members of the Company may wish to consider those consolidated financial statements and read them in conjunction with the audited consolidated financial statements of the Group for year 31 March 2017.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors of the Company in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code.

Moore Stephens CPA Limited
Certified Public Accountants

Hung, Wan Fong Joanne
Practising Certificate Number: P05419

Hong Kong, 10 October 2018

Consolidated Statement of Profit or Loss

For the year ended 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	4	**123,690**	217,659
Cost of sales		**(72,712)**	(141,870)
Gross profit		**50,978**	75,789
Other income	4	**6,416**	8,208
Interest income from loan receivable	17	**5,863**	–
Equity-settled share option expense	25	**(6,311)**	–
Gain on disposal of items of property, plant and equipment, net		**168**	84
Gain on disposal of subsidiaries	27	**–**	18,811
Selling and distribution expenses		**(39,448)**	(59,138)
Administrative expenses		**(30,996)**	(32,438)
Other expenses		**(17,185)**	(6,501)
Finance costs	6	**(1,652)**	(16)
(LOSS)/PROFIT BEFORE TAX	5	**(32,167)**	4,799
Income tax expense	9	**(264)**	(2,385)
(LOSS)/PROFIT FOR THE YEAR		**(32,431)**	2,414
(Loss)/profit attributable to owners of the Company		**(32,431)**	2,414
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
Basic		**HK$(2.24) cents**	HK$0.17 cents
Diluted		**HK$(2.24) cents**	HK$0.17 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	2017 HK$'000	2016 HK$'000
(LOSS)/PROFIT FOR THE YEAR	**(32,431)**	2,414
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(8,905)**	(7,886)
Release of exchange fluctuation reserve on disposal of subsidiaries	**–**	(9,914)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	**(8,905)**	(17,800)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(41,336)**	(15,386)
Total comprehensive loss attributable to owners of the Company	**(41,336)**	(15,386)

Consolidated Statement of Financial Position

At 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSET			
Property, plant and equipment	12	**2,566**	3,504
Total non-current asset		**2,566**	3,504
CURRENT ASSETS			
Inventories	14	**3,974**	3,816
Trade and bills receivables	15	**25,392**	49,387
Prepayments, deposits and other receivables	16	**6,661**	58,145
Loan receivable	17	**161,055**	–
Income tax recoverable		**–**	181
Time deposits with original maturities of more than three months	18	**30,593**	156,338
Cash and cash equivalents	18	**111,439**	53,053
Total current assets		**339,114**	320,920
CURRENT LIABILITIES			
Trade payables	19	**22,383**	28,455
Other payables, accruals and receipts in advance	20	**56,047**	55,958
Finance lease payables	21	**409**	293
Due to related companies	31(b)	**1,409**	644
Due to directors of the Company	31(b)	**3,507**	7,945
Total current liabilities		**83,755**	93,295
NET CURRENT ASSETS		**255,359**	227,625
TOTAL ASSETS LESS CURRENT LIABILITIES		**257,925**	231,129

Consolidated Statement of Financial Position (Continued)

At 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Convertible bonds	22	**52,032**	–
Finance lease payables	21	**467**	456
Deferred income		**1,150**	4,521
Total non-current liabilities		**53,649**	4,977
Net assets		**204,276**	226,152
EQUITY			
Equity attributable to owners of the Company			
Issued share capital	24	**72,576**	72,476
Reserves	26	**131,700**	153,676
Total equity		**204,276**	226,152

The consolidated financial statements on pages 44 to 111 were approved and authorised for issue by the board of directors on 10 October 2018 and are signed on its behalf by:

Yeh Shu Ping	**Jiao Shaoliang**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	Notes	Issued share Capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note 26)	Statutory surplus reserve HK$'000 (note 26)	Employee share-based compensation reserve HK$'000 (note 25)	Convertible bonds equity reserve HK$'000 (note 22)	Exchange fluctuation reserve HK$'000 (note 26)	Accumulated losses HK$'000	Total equity HK$'000
At 1 April 2015		72,476	252,319	300	2,364	–	–	26,504	(112,425)	241,538
Profit for the year										
Other comprehensive loss for the year:		–	–	–	–	–	–	–	2,414	2,414
Exchange differences on translation of										
foreign operations		–	–	–	–	–	–	(7,886)	–	(7,886)
Release of exchange fluctuation reserve upon										
disposal of subsidiaries	*27*	–	–	–	–	–	–	(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 and 1 April 2016		72,476	252,319*	300*	–*	–*	–*	8,704*	(107,647)*	226,152
Loss for the year		–	–	–	–	–	–	–	(32,431)	(32,431)
Other comprehensive loss for the year:										
Exchange differences on translation of										
foreign operations		–	–	–	–	–	–	(8,905)	–	(8,905)
Total comprehensive loss for the year		–	–	–	–	–	–	(8,905)	(32,431)	(41,336)
Recognition of equity component of Convertible Bonds	*22*	–	–	–	–	–	12,914	–	–	12,914
Transaction cost attributable to issuance of										
Convertible Bonds allocated to equity component	*22*	–	–	–	–	–	(365)	–	–	(365)
Recognition of equity-settled share option expense	*25*	–	–	–	–	6,311	–	–	–	6,311
Exercise of share options	*25*	100	682	–	–	(182)	–	–	–	600
At 31 March 2017		**72,576**	**253,001***	**300***	**–***	**6,129***	**12,549***	**(201)***	**(140,078)***	**204,276**

* *These reserve accounts comprise the consolidated reserves of HK$131,700,000 (2016: HK$153,676,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
(Loss)/profit before tax		**(32,167)**	4,799
Adjustments for:			
Gain on disposal of subsidiaries	27	**–**	(18,811)
Finance costs	6	**1,652**	16
Bank interest income	4	**(2,324)**	(4,104)
Interest income from loan receivable		**(5,863)**	–
Equity-settled share option expense	25	**6,311**	–
Depreciation	5	**1,414**	4,665
Amortisation of prepaid land lease payments	5	**–**	139
Impairment losses of items of property, plant and equipment	5	**–**	1,805
Write off of items of property, plant and equipment	5	**383**	–
Gain on disposal of items of property, plant and equipment, net		**(168)**	(84)
Impairment losses of trade receivables	5	**18,142**	4,730
Impairment losses of other receivables	5	**118**	122
Reversal of impairment losses of trade receivables	5	**(1,459)**	(272)
Provision for slow-moving and obsolete inventories	5	**101**	3,399
		(13,860)	(3,596)
Increase in inventories		**(458)**	(2,377)
Decrease/(increase) in trade and bills receivables		**4,770**	(20,755)
Decrease in prepayments, deposits and other receivables		**1,090**	993
Increase/(decrease) in amounts due to related companies		**823**	(261)
(Decrease)/increase in trade payables		**(4,430)**	11,329
Increase in other payables, accruals and receipts in advance		**2,935**	11,243
Decrease in deferred income		**(3,158)**	(1,788)
Cash used in operations		**(12,288)**	(5,212)
PRC withholding tax paid		**–**	(3,675)
PRC enterprise income tax paid		**(76)**	(667)
Net cash flows used in operating activities		**(12,364)**	(9,554)
INVESTING ACTIVITIES			
Interest received		**2,324**	6,201
Advance of a loan receivable		**(158,791)**	–
Purchases of items of property, plant and equipment		**(430)**	(4,137)
Proceeds from disposal of items of property, plant and equipment		**168**	84
Cash inflow/(outflow) from disposal of subsidiaries	16, 27	**49,825**	(17,640)
Withdrawal of short term time deposits with original maturities of more than three months		**119,185**	8,715
Net cash flows generated from/(used in) investing activities		**12,281**	(6,777)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
FINANCING ACTIVITIES			
Transaction costs on issuance of convertible bonds		**(1,833)**	–
Proceeds from issuance of convertible bonds		**64,800**	–
Proceeds from issue of shares upon exercise of share options		**600**	–
Repayments of finance lease payables		**(438)**	(318)
Repayments of advances from directors of the Company		**(4,438)**	(5,033)
Payment of interest on finance leases		**(38)**	(16)
Net cash flows generated from/(used in) financing activities		**58,653**	(5,367)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**58,570**	(21,698)
Cash and cash equivalents at beginning of year		**53,053**	81,936
Effect of foreign exchange rate changes, net		**(184)**	(7,185)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**111,439**	53,053
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*18*	**21,218**	22,680
Time deposits with original maturities of less than three months	*18*	**90,221**	30,373
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**111,439**	53,053

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal place of business of the Company is disclosed in the corporate information section to the annual report. During the year, the Company and its subsidiaries (collectively the "Group") were involved in the trading and distribution of pharmaceutical products, tea products and other food products.

Information about principal subsidiaries of the Company

Particulars of the Company's principal subsidiaries are as follows as at 31 March 2017 and 2016:

Name of subsidiary	Place of incorporation/ registration and operations	Issued ordinary share/ registered capital	Proportion of ownership interest held by 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
Long Far Investment (Hong Kong) Limited	Hong Kong	HK$1	100	Dormant
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
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	Trading of tea products

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries of the Company (Continued)

Name of subsidiary	Place of incorporation/ registration and operations	Issued ordinary share/ registered capital	Proportion of ownership interest held by the Company	Principal activities
雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited)**@ ("YNLR")	The People's Republic of China (the "PRC" or "Mainland China")/ Mainland China	HK$47,000,000	100	Trading of tea products
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	Renminbi ("RMB") 8,000,000	100	Operation of tea shop
元陽縣龍潤茶業有限公司 (Yuanyang Xian Longrun Tea Trading Company Limited)**@#	The PRC/ Mainland China	RMB6,000,000	100	Dormant

* *In accordance with the articles of association of LFHK, shareholders of non-voting deferred shares are not entitled to any dividend, any participation in the profits or assets of LFHK (unless the distribution of the net assets for the first HK$100,000 billion is made to the ordinary shareholders), and are also not entitled to vote at any general meeting.*

The percentage of equity interest attributable to the Company represents to the ordinary shares.

** *Registered as a wholly-foreign-owned enterprise under the PRC law.*

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

Incorporated in March 2017.

^ *De-registered after the year ended*

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable 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 applicable disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

These consolidated financial statements have been prepared on the historical cost convention. These consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the Company's functional currency, and all values are rounded to the nearest thousand except when otherwise indicated.

The principal accounting policies and methods of computation used by the Group in the preparation of the consolidated financial statements for the year ended 31 March 2017 are consistent with those adopted in the consolidated financial statements for the year ended 31 March 2016, except for the adoption of the new and revised HKFRSs as explained in below. The Group has not applied any new standard that is not yet mandatorily effective for the current accounting period *(note 37)*.

Impacts of the adoption of new and revised HKFRSs are discussed below:

(a) Adoption of new and revised HKFRSs

In the preparation of the consolidated financial statements for the year ended 31 March 2017, the Group has applied, for the first time, the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKAS 27	Equity Method in Separate Financial Statements
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised HKFRSs (Continued)

The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material (even if the HKFRS contains a list of specific requirements or describes them as minimum requirements). The amendments also give guidance on the bases of aggregating and disaggregating information for disclosure purposes. The amendments emphasize that an entity should consider whether to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Furthermore, the amendments require that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. The amendments do not have any significant impact on the Group's consolidated financial statement.

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue-based amortisation is not an appropriate basis for amortisation of an intangible asset. The amendments states that such a presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

With regard to the Group's property, plant and equipment and intangible assets, the Group did not use revenue-based depreciation method and hence the amendments have not had any impact on the Group's financial position and financial performance. Rather, the Group has been using the straight-line method for depreciation and amortisation for its property, plant and equipment and intangible assets, respectively.

The amendments to HKAS 27 allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments do not have any impact on the Group's consolidated financial statements.

The amendments to HKFRS 10, HKFRS 12 and HKAS 28 mainly clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. Neither the Company nor any of its subsidiaries is an investment entity and hence the amendments do not have any impact on the Group's consolidated financial statements.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Adoption of new and revised HKFRSs (Continued)

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 "Business Combinations". Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards should be applied. The amendments also require that a joint operator to disclose the relevant information required by HKFRS 3 and other standards for business combinations. The amendments require prospective application for annual periods beginning on or after 1 January 2016. The Group did not have any such transactions in the current year and hence the application of these amendments has had no impact on the Group's consolidated financial statements.

The amendments to HKAS 16 and HKAS 41 define a bearer plant that is a living plant that:

a) is used in the production or supply of agricultural produce;

b) is expected to bear produce for more than one period; and

c) has a remote likelihood of being sold as agricultural produce except for incidental scrap sales.

The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

(b) Significant judgements and estimates

The preparation of the consolidated financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors have considered the development, selection and disclosure of the Group's critical accounting judgements and estimates.

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.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Significant judgements and estimates (Continued)

Estimation uncertainty (Continued)

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 23 to the consolidated financial statements.

Impairment on trade and bills receivables and other receivable

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 the directors' of the Company 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 impairment losses may be required.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payments are disclosed in note 25.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2017. 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.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

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 Company 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 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.

(d) Impairment of non-financial assets other than goodwill

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 consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) 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.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the item has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item, the expenditure is capitalised as an additional cost of the item. When an item of property, plant and equipment is sold, its cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the profit or loss.

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	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%

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments of such assets, are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as finance lease obligations. Depreciation is provided at rates which write off the cost of assets over the term of the relevant leases or, where it is likely the Group will obtain ownership of the assets, the life of the assets. Impairment losses are accounted for in accordance with the accounting policy as set out above. Finance charges implicit in the lease payments are charged to the consolidated statement of profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals, if any, are charged to the consolidated statement of profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated statement of profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals, if any, are charged to the consolidated statement of profit or loss in the accounting period in which they are incurred.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Investments and other financial assets

Initial recognition and measurement

The Group financial assets are mainly loans and receivables which are recognised initially at fair value, plus transaction costs that are attributable to the acquisition of the financial assets.

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

Subsequent measurement

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

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

(i) 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 statement of financial position) when:

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

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

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.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) 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 consolidated 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 consolidated statement of profit or loss.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial liabilities and equity instruments

Initial recognition and measurement

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 payables, other payables and accruals, amounts due to related companies, amounts due to directors of the Company and finance lease payables and liability component of convertible bonds. They are subsequently measured at amortised cost, using the effective interest method.

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 consolidated 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 consolidated statement of profit or loss.

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. The liability component is measured on an amortised cost basis at subsequent reporting dates using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial liabilities and equity instruments (Continued)

Convertible bonds (Continued)

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

(l) 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 consolidated statement of profit or loss.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) 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 consolidated statement of profit or loss.

(n) 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) 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 time deposits with original maturity of less than three months, which are not restricted as to use.

(p) 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.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) 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 consolidated 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 consolidated statement of profit or loss by way of a reduced depreciation charge.

(r) 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:

(i) 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;

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

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

(iv) 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.

(s) 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 17 August 2012 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 25 to the financial statement.

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 consolidated 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.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Share-based payments (Continued)

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.

(t) Other employee benefits

(i) Pension scheme

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Other employee benefits (Continued)

(ii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

(iii) Employee long service payment

The provision for long service is provided based on the employees' basic salaries and their respective length of service in accordance with the applicable rules and regulations in their respective countries of employment.

(u) 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.

(v) Foreign currencies

These consolidated 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 consolidated statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the consolidated 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 consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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).

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into 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 consolidated statement of profit or loss.

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.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. 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 (loss)/profit, which represents the loss from/profit earned by each segment without allocation of bank interest income, interest income from loan receivable, finance costs, write off of items of property, plant and equipment, impairment of items of property, plant and equipment, gain on disposal of subsidiaries, gain on disposal of items of property, plant and equipment, net, equity-settled share option expense, exchange gain, net as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude time deposits with original maturities of more than three months, income tax recoverable, 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, convertible bonds and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

3. SEGMENT INFORMATION (Continued)

(a) Operating segments

	Distribution of pharmaceutical products HK$'000	Distribution of tea and other food products HK$'000	Total HK$'000
Year ended 31 March 2017			
Segment revenue:			
Sales to external customers	**5,829**	**117,861**	**123,690**
Other income	**20**	**4,062**	**4,082**
	5,849	**121,923**	**127,772**
Segment results	**(6,421)**	**(11,057)**	**(17,478)**
Reconciliation:			
Bank interest income			**2,324**
Interest income from loan receivable			**5,863**
Write off of items of property, plant and equipment			**(383)**
Gain on disposal of items of property, plant and equipment, net			**168**
Equity-settled share option expense			**(6,311)**
Corporate and other unallocated expenses			**(14,708)**
Finance costs			**(1,652)**
Exchange gain			**10**
Loss before tax			**(32,167)**
As at 31 March 2017			
Segment assets	**3,488**	**195,862**	**199,350**
Reconciliation:			
Time deposits with original maturities of more than three months			**30,593**
Cash and cash equivalents			**111,439**
Corporate and other unallocated assets			**298**
Total assets			**341,680**
Segment liabilities	**1,973**	**69,073**	**71,046**
Reconciliation:			
Convertible bonds			**52,032**
Finance lease payables			**876**
Corporate and other unallocated liabilities			**13,450**
Total liabilities			**137,404**
Year ended 31 March 2017			
Other segment information:			
Impairment losses recognised in the consolidated statement of profit or loss	**86**	**18,275**	**18,361**
Impairment losses reversed in the consolidated statement of profit or loss	**–**	**(1,459)**	**(1,459)**
Depreciation	**656**	**758**	**1,414**
Capital expenditure*	**628**	**367**	**995**

3. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Manufacturing and distribution of pharmaceutical products HK$'000	Distribution of tea and other food products HK$'000	Total HK$'000
Year ended 31 March 2016			
Segment revenue:			
Sales to external customers	48,845	168,814	217,659
Other income	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
Bank 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
As at 31 March 2016			
Segment assets	52,880	61,776	114,656
Reconciliation:			
Time deposits with original maturities of more than three months			156,338
Cash and cash equivalents			53,053
Income 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
Year ended 31 March 2016			
Other segment information:			
Impairment losses recognised in the consolidated statement of profit or loss	3,287	6,769	10,056
Impairment losses reversed in the consolidated statement of profit or loss	(172)	(100)	(272)
Depreciation and amortisation	3,815	989	4,804
Capital expenditure*	2,966	2,063	5,029

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

3. SEGMENT INFORMATION (Continued)

(b) Geographical information

(i) Revenue from external customers:

	2017 HK$'000	2016 HK$'000
The PRC excluding Hong Kong	**113,397**	207,139
Hong Kong	**5,722**	6,031
Elsewhere in Asia	**3,230**	4,489
United States of America	**1,341**	–
	123,690	217,659

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

(ii) Non-current assets:

	2017 HK$'000	2016 HK$'000
The PRC, excluding Hong Kong	**1,558**	2,483
Hong Kong	**1,008**	1,021
	2,566	3,504

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

(c) Information about major customers

Revenue of approximately HK$27,548,000 for the year ended 31 March 2017 was derived from sales to two major customers. Each of these customers contributed 10% or more sales to the Group's revenue.

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.

4. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of revenue and other income is as follows:

	2017 HK$'000	2016 HK$'000
Revenue		
Sale of goods	**123,690**	217,659
Other income		
Franchise income	**1,528**	1,997
Bank interest income	**2,324**	4,104
Subsidy income^	**2,223**	1,460
Rental income	**140**	192
Exchange gain	**10**	–
Others	**191**	455
	6,416	8,208

^ *Various one-off government subsidies are provided regarding the expenditure incurred by the high and new technology enterprises in Yunnan province, the PRC. There are no unfulfilled conditions or contingencies related to these subsidies.*

5. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories recognised as an expense		**71,412**	135,823
Depreciation	12	**1,414**	4,665
Amortisation of prepaid land lease payments	13	**–**	139
Minimum lease payments under operating leases of offices and buildings		**10,425**	15,470
Auditor's remuneration			
– Audit services		**1,930**	1,030
– Non-audit services		**300**	315
Employee benefits expense (excluding directors' remuneration in note 7):			
– Salaries, allowances and benefits in kind		**26,460**	38,007
– Pension scheme contributions		**4,772**	1,117
– Equity-settled share option expense^		**1,629**	–
		32,861	39,124
Provision for slow-moving and obsolete inventories*	14	**101**	3,399
Exchange gain#		**(10)**	–
Impairment losses of trade receivables@	15	**18,142**	4,730
Impairment losses of items of property, plant and equipment@	12	**–**	1,805
Write off of items of property, plant and equipment@	12	**383**	–
Impairment losses of other receivables@	16	**118**	122
Reversal of impairment losses of trade receivables@	15	**(1,459)**	(272)

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

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

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

^ *The amount is related to share options granted to employees of the Company.*

6. FINANCE COSTS

	Note	2017 HK$'000	2016 HK$'000
Interest on finance leases		**38**	16
Effective interest expense on Convertible Bonds	*22*	**1,614**	–
		1,652	16

7. DIRECTORS' AND CHIEF EXECUTIVE'S 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:

	2017 HK$'000	2016 HK$'000
Fees:		
Executive directors	**10**	–
Independent non-executive directors	**368**	288
	378	288
Other emoluments:		
Salaries, allowances and benefits in kind	**5,544**	5,126
Pension scheme contributions	**51**	48
Equity-settled share option expense	**4,682**	–
	10,277	5,174
	10,655	5,462

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

	Director fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
Year ended 31 March 2017					
Independent non-executive directors:					
Mr. Guo Guoqing	**92**	**–**	**–**	**132**	**224**
Mr. Lam Siu Hung	**92**	**–**	**–**	**132**	**224**
Mr. Kwok Hok Lun	**92**	**–**	**–**	**132**	**224**
Dr. Liu Zhonghua	**92**	**–**	**–**	**132**	**224**
	368	**–**	**–**	**528**	**896**
Year ended 31 March 2016					
Independent non-executive directors:					
Mr. Guo Guoqing	72	–	–	–	72
Mr. Lam Siu Hung	72	–	–	–	72
Mr. Kwok Hok Lun	72	–	–	–	72
Dr. Liu Zhonghua	72	–	–	–	72
	288	–	–	–	288

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors

	Director fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
Year ended 31 March 2017					
Executive directors:					
Dr. Chiu Ka Leung	**10**	**2,322**	**18**	**185**	**2,535**
Ms. Yeh Shu Ping*	**–**	**1,950**	**–**	**1,323**	**3,273**
Mr. Jiao Shaoliang	**–**	**606**	**18**	**1,323**	**1,947**
Dr. He William (also known as Lu Pingguo)	**–**	**666**	**15**	**1,323**	**2,004**
	10	**5,544**	**51**	**4,154**	**9,759**
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. He William (also known as Lu Pingguo)	–	248	12	–	260
	–	5,126	48	–	5,174

* *Ms. Yeh Shu Ping, an executive director of the Company, is also the chief executive of the Company for both years.*

The amounts above represent the estimated value of the non-cash share options granted to the executive directors and independent non-executive directors under the Company's share option scheme. These amounts are based on the Group's accounting policies for equity-settled share-based payment transaction as set out in note 2(s). Details of the principal terms and number of options granted, are disclose in note 25.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2016: Nil).

Salaries, allowance and benefits in kind paid to or for the executive director are generally emoluments paid or payable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2016: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining two (2016: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	3,609	3,434
Equity-settled share option expense	1,356	–
Pension scheme contributions	36	54
	5,001	3,488

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

	Number of employees 2017	2016
Nil to HK$1,000,000	–	1
HK$1,000,001 to HK$1,500,000	–	2
HK$2,000,001 to HK$2,500,000	1	–
HK$2,500,001 to HK$3,000,000	1	–
	2	3

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group does not generate any assessable profits arising in Hong Kong during the current year (2016: Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit). Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. 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	**2017 HK$'000**	2016 HK$'000
Current – Hong Kong			
Underprovision in prior years		**1**	–
		1	–
Current – PRC Enterprise Income Tax			
Charge for the year		**17**	2,912
Underprovision/(overprovision) in prior years		**246**	(490)
		263	2,422
Deferred tax	*23*	**–**	(37)
Total income tax expense for the year		**264**	2,385

9. INCOME TAX EXPENSE (Continued)

A reconciliation of the income tax expense applicable to (loss)/profit 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:

	Hong Kong, British Virgin Islands and Cayman Islands		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Year ended 31 March 2017						
Loss before tax	**(28,435)**	**–**	**(3,732)**	**–**	**(32,167)**	**–**
Tax at the statutory or applicable tax rate	**(4,692)**	**16.5**	**(933)**	**25.0**	**(5,625)**	**17.5**
Income tax at preferential tax rate	**–**	**–**	**275**	**(7.4)**	**275**	**(0.8)**
Adjustments in respect of current tax of previous periods	**1**	**–**	**246**	**(6.6)**	**247**	**(0.8)**
Income not subject to tax	**(80)**	**0.3**	**–**	**–**	**(80)**	**0.2**
Expenses not deductible for tax	**3,724**	**(13.1)**	**1,159**	**(31.0)**	**4,883**	**(15.2)**
Utilisation of tax losses previously not recognised	**–**	**–**	**(613)**	**16.4**	**(613)**	**2.0**
Tax losses not recognised	**1,055**	**(3.7)**	**129**	**(3.4)**	**1,184**	**(3.7)**
Others	**(7)**	**–**	**–**	**–**	**(7)**	**–**
Tax at the Group's effective rate	**1**	**–**	**263**	**(7.0)**	**264**	**(0.8)**

	Hong Kong, British Virgin Islands and Cayman Islands		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Year ended 31 March 2016						
Profit 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
Income tax at 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
Utilisation of tax losses previously not recognised	(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

9. INCOME TAX EXPENSE (Continued)

In accordance with the relevant tax rules and regulations in the PRC, a subsidiary of the Company in the PRC enjoys tax benefit as follows:

YNLR, a subsidiary of the Company in the PRC, is qualified as High and New Technology Enterprise which is entitled to a reduced preferential EIT rate of 15% for a 3-year period from 31 July 2015 to 30 July 2018, according to the Detailed Implementation Rules of the EIT Law.

10. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2017 (2016: Nil).

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

The calculation of the basic (loss)/earnings per share amount is based on the loss for the year attributable to owners of the Company of approximately HK$32,431,000 (2016: profit of approximately HK$2,414,000), and the weighted average number of ordinary shares of approximately 1,450,161,000 (2016: 1,449,520,000) in issue during the year.

For the year ended 31 March 2017, the computation of diluted loss per share did not assume the conversion of the Company's outstanding convertible bonds and exercise of outstanding share options since their assumed exercises would result in a decrease in loss per share.

For the year ended 31 March 2016, no adjustment has been made to the basis earnings per share amounts presented in the computation of diluted loss per share as the Group does not have potentially dilutive ordinary shares.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
31 March 2017						
At 1 April 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
At 1 April 2016, net of accumulated depreciation and impairment	1,204	1,192	32	–	1,076	3,504
Additions	208	131	28	–	628	995
Write off	(105)	(278)	–	–	–	(383)
Depreciation provided during the year	(555)	(291)	(25)	–	(543)	(1,414)
Exchange realignment	(59)	(62)	–	–	(15)	(136)
At 31 March 2017, net of accumulated depreciation and impairment	693	692	35	–	1,146	2,566
At 31 March 2017:						
Cost	2,512	1,449	753	1,101	2,136	7,951
Accumulated depreciation and impairment	(1,819)	(757)	(718)	(1,101)	(990)	(5,385)
Net carrying amount	693	692	35	–	1,146	2,566

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 1 April 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	*27*	(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

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 2017 amounted to approximately HK$954,000 (2016: HK$809,000).

13. PREPAID LAND LEASE PAYMENTS

	Notes	2017 HK$'000	2016 HK$'000
Carrying amount at beginning of year		–	5,500
Amortised during the year	5	–	(139)
Disposal of subsidiaries	27	–	(5,153)
Exchange realignment		–	(208)
Carrying amount at end of year		–	–

14. INVENTORIES

	2017 HK$'000	2016 HK$'000
Trading goods	2,952	3,162
Finished goods	457	149
Work in progress	90	95
Raw materials	287	187
Packaging materials	188	223
	3,974	3,816

During the year ended 31 March 2017, the amount of write down of inventories to their net realisable value of approximately HK$101,000 (2016: HK$3,399,000) was recognised as an expense in the consolidated statement of profit or loss.

15. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**46,175**	54,072
Bills receivable	**–**	60
	46,175	54,132
Less: impairment losses	**(20,783)**	(4,745)
	25,392	49,387

The Group's trading terms with its customers are mainly on credit, except for new customers of which payment in advance is normally required. The credit period generally ranges from 30 to 90 (2016: 60 to 180) days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company. Trade and bills receivables are non-interest-bearing.

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

	2017 HK$'000	2016 HK$'000
Within 1 month	**5,676**	7,910
2 to 3 months	**8,056**	28,511
4 to 12 months	**10,481**	12,966
Over 12 months	**1,179**	–
	25,392	49,387

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:

	2017 HK$'000	2016 HK$'000
Current (neither past due nor impaired)	**6,249**	30,100
Within 1 to 3 months overdue	**12,193**	17,321
Within 4 to 12 months overdue	**6,950**	1,966
	25,392	49,387

15. TRADE AND BILLS RECEIVABLES (Continued)

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

	Note	**2017 HK$'000**	2016 HK$'000
At beginning of year		**4,745**	802
Impairment losses recognised	*5*	**18,142**	4,730
Impairment losses reversed	*5*	**(1,459)**	(272)
Amount written off on uncollectible		**–**	(515)
Exchange realignment		**(645)**	–
At end of year		**20,783**	4,745

Included in the above provision for impairment losses of the trade receivables are individually impaired trade receivables with an aggregate amount of approximately HK$20,783,000 (2016: HK$4,745,000). These individually impaired receivables are related to customers that are in financial difficulties and the directors of the Company assesses that the chance of recoverability is remote.

Receivables that are past due but not impaired are related to a number of independent customers that have good track records 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 of the balances and the balances are still considered to be fully recoverable. The Group does not hold any collateral 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 *(note 31(a)(i))*, of approximately HK$6,941,000 (2016: HK$4,860,000), which are repayable on similar credit terms to those offered to the major customers of the Group. All balances are due within 12 months and no impairment loss is provided.

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

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	**566**	312
Deposits and other receivables	**6,324**	57,953
Less: impairment losses	**(229)**	(120)
	6,661	58,145

At 31 March 2016, included in the Group's other receivables was an amount of approximately 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 ("Dr. Chiu") and Mr. Jiao Shaoliang ("Mr. Jiao"), respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company. The aforesaid amount represented the consideration receivable on disposal of YNLF, as defined in note 19, in November and December 2015, as disclosed in note 27, of approximately HK$52,000,000, net of withholding tax of approximately HK$2,175,000 which was paid on behalf of the Group by YLI. All consideration receivable HK$49,825,000 was received during the year ended 31 March 2017.

The movements in the provision for impairment of prepayment, deposits and other receivables are as follows:

	Note	2017 HK$'000	2016 HK$'000
At beginning of year		**120**	–
Impairment losses recognised	*5*	**118**	122
Exchange realignment		**(9)**	(2)
At end of year		**229**	120

Included in the above provision for impairment losses of the prepayments, deposits and other receivables are individually impaired prepayments, deposits and other receivables with an aggregate balance of approximately HK$229,000 (2016: HK$120,000). These individually impaired receivables are related to counterparties that are in financial difficulties and the directors of the Company assesses that the chance of recoverability is remote.

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17. LOAN RECEIVABLE

	2017 HK$'000	2016 HK$'000
Fixed-rate loan receivable	155,138	–
Interest receivable on loan receivable	5,917	–
Amount due within 1 year shown as current asset	161,055	–

The loan receivable was granted to a party ("Borrower") which is an independent third party of the Group or any of the directors of the Company. The loan receivable is denominated in Renminbi ("RMB"), which is unsecured, interest-bearing at fixed rate of 9% per annum and would be repayable within 6 months after the available date of releasing advance as prescribed in the loan agreement, which was approved by the directors of the subsidiary of the Group. The loan was paid to FLRT, CLRT and YLRP (as defined in notes 19 and 31(b)(i)) at the instruction of the Borrower. The loan interest income of approximately HK$5,863,000 was recognised as the "Interest income from loan receivable" in the consolidated statement of profit or loss. At 31 March 2017, the loan and interest receivable have been past due and repayable on demand. Subsequent to the year ended 31 March 2017, the loan receivable and interest thereon are fully repaid by the Borrower and LRTG (as defined in note 19) at the instruction of the Borrower. Details of the loan are set out in the announcement of the Company dated 28 February 2018.

18. CASH AND CASH EQUIVALENTS

	2017 HK$'000	2016 HK$'000
Cash and bank balances	21,218	22,680
Time deposits with original maturities of less than three months	90,221	30,373
Cash and cash equivalents	111,439	53,053

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$3,521,000 (2016: HK$5,743,000). 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 HK$ (2016: HK$ and RMB) at 31 March 2017.

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.

19. 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:

	2017 **HK$'000**	2016 HK$'000
Current and not past due	**9,535**	5,932
Within 1 to 3 months overdue	**11,585**	20,614
Within 4 to 12 months overdue	**731**	1,383
Over 12 months overdue	**532**	526
	22,383	28,455

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

	2017 **HK$'000**	2016 HK$'000
Yunnan Longrun Tea Development Company Limited@ ("YLRT") 雲南龍潤茶業發展有限公司	**–**	1,313
Yunnan Longrun Tea Group Company Limited@ ("LRTG") 雲南龍潤茶業集團有限公司	**7,779**	11,636
Fengqing Longrun Tea Company Limited@ ("FLRT") 鳳慶龍潤茶業有限公司	**6,721**	5,991
Changning Longrun Tea Company Limited@ ("CLRT") 昌寧縣龍潤茶業有限公司	**7,038**	8,935
Yunnan Longfar Pharmaceutical Company Limited@ ("YNLF") 雲南龍發製藥股份有限公司(前稱「雲南龍發製藥有限公司」)	**316**	–
	21,854	27,875

Details of relationships with the Group regarding the aforesaid related parties are disclosed in note 31(a)(ii)-(v). The trade payables to related parties are non-interest bearing and are normally settled on 90-day terms.

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

20. OTHER PAYABLES, ACCRUALS AND RECEIPTS IN ADVANCE

	2017 HK$'000	2016 HK$'000
Receipts in advance from customers	**27,646**	29,907
Accruals	**25,103**	22,548
Other payables	**3,298**	3,503
	56,047	55,958

Included in the Group's other payables is the other payable due to YLRT, a related party of the Group, of approximately HK$592,000 (2016: HK$1,136,000). The balance is unsecured, non-interest bearing and repayable on demand.

21. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles *(Note 12)* under finance leases for manufacturing and distribution of its pharmaceutical products business. The lease terms of finance lease payables are ranging from 3 to 5 years (2016: 3 to 5 years).

At 31 March 2017, the total future minimum lease payments under finance leases and its present values were as follows:

	Minimum lease payments 2017 HK$'000	Minimum lease payments 2016 HK$'000	Present value of minimum lease payments 2017 HK$'000	Present value of minimum lease payments 2016 HK$'000
Amounts payable:				
Within one year	**435**	311	**409**	293
In the second year	**280**	311	**267**	302
In the third to fifth years	**207**	155	**200**	154
Total minimum finance lease payments	**922**	777	**876**	749
Less: future finance charges	**(46)**	(28)		
Present value of finance lease payables	**876**	749		
Portion classified as current liabilities	**(409)**	(293)		
Non-current portion	**467**	456		

22. CONVERTIBLE BONDS

On 27 January 2017, the Company issued 5.5% convertible bonds which are denominated in Hong Kong dollars with an aggregate principal amount of HK$64,800,000 (the "Convertible Bonds") for cash to the independent third parties.

The Convertible Bonds will be matured on the second anniversary of the date of issue and the conversion price is HK$0.27 per share subject to anti-dilutive adjustments. Neither the Company nor the holders of the Convertible Bonds may demand early redemption. And the Convertible Bonds bear interests at 5.5% per annum on the outstanding principal amount and would be payable semi-annually in arrears until the Convertible Bonds are converted or matured. Unless previously converted or cancelled, upon maturity of the Convertible Bonds, the Company will pay to the holders of the Convertible Bonds an amount equal to the aggregate of 100% of the principal amount of the Convertible Bonds outstanding and interest accrued and outstanding pursuant to the terms and conditions of the Convertible Bonds.

Details of the Convertible Bonds are set out in the announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017 and 6 February 2017.

The Convertible Bonds are treated as a compound financial instrument, and the fair value of the liability component on initial recognition was determined at date of issuance of the Convertible Bonds with reference to a professional valuation performed by a professional independent valuer.

The fair value of the liability component on initial recognition was included in non-current liabilities, as the Convertible Bonds are due on the second anniversary of the issue of the Convertible Bonds, was derived from present value of future cash flows discounted at the effective interest rate, which is estimated with reference to the yields of market instruments with similar credit qualities and time to maturities, and is subject to the adjustment of relevant risk premium and subsequently measured at amortised cost. The residual amount, representing the value of the equity conversion component, was included in convertible bonds equity reserve.

The Convertible Bonds issued during the year have been split as to the liability and equity components, as follows:

	Note	**2017** **HK$'000**
Equity component		
Proceeds at the date of issuance		**64,800**
Transaction cost attributable to issuance of Convertible Bonds allocated to equity component		**(365)**
Liability component, at the date of issuance		**(51,886)**
Equity component, at 31 March 2017		**12,549**
Liability component		
At the date of issuance		**51,886**
Transaction cost attributable to issuance of Convertible Bonds allocated to liability component		**(1,468)**
Effective interest expense	*6*	**1,614**
Liability component, at 31 March 2017		**52,032**

The effective interest rate of the liability component on initial recognition and the subsequent measure of interest expense on the Convertible Bonds are calculated using effective interest rate of approximately 19% per annum.

23. DEFERRED TAX

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

Deferred tax liabilities

	Notes	**Fair value adjustments arising from acquisition of subsidiaries** HK$'000
At 1 April 2015		377
Deferred tax credited to the consolidated statement of profit or loss during the year	*9*	(37)
Disposal of subsidiaries	*27*	(326)
Exchange realignment		(14)
At 31 March 2017 and 31 March 2016		–

Deferred tax assets

Tax following tax losses and deductible temporary differences have not been recognised as deferred tax assets as it is not considered probable that taxable profits will be available against which the tax losses and deductible temporary differences can be utilised:

	2017 **HK$'000**	2016 HK$'000
Tax losses	**125,237**	203,899
Deductible temporary differences	**250**	196
	125,487	204,095

The Group has tax losses arising in Hong Kong of approximately HK$99,935,000 (2016: HK$175,398,000) that may be carried forward indefinitely and subject to the approval by Hong Kong Inland Revenue ("IRD") for offsetting against future taxable profits of the companies in which the losses arose.

Regarding to the letters from IRD to the Company dated 9 September 2016 and 30 March 2017, IRD had a dispute on the tax losses claimed by the Company for the assessment years of 2010/2011, 2011/2012, 2012/2013, 2013/2014, 2014/2015 and 2015/2016 and considered certain deductible expenses incurred in those assessment years shall not be eligible for the tax deduction. On 24 January 2017 and 1 December 2017, the Company agreed to withdraw the claim for loss under the assessment years of 2010/2011, 2011/2012, 2012/2013, 2013/2014, 2014/2015 and 2015/2016 in an aggregate amount of approximately HK$81,829,000. On 2 January 2018, IRD issued a revised statement of loss for the assessment year of 2015/2016 and agreed the tax losses carried forward were approximately HK$23,008,000.

The Group also has tax losses arising in the PRC of approximately HK$25,302,000 (2016: HK$28,501,000) that will expire from 2018 to 2022 for offsetting against future taxable profits.

23. 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 the PRC. The requirement is effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty between the PRC 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 the PRC 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 undistributed earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors of the Company, the Group is able to control the timing of distribution of earnings and 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 the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$63,688,000 at 31 March 2017 (2016: HK$66,693,000).

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

24. ISSUED SHARE CAPITAL

	2017 HK$'000	2016 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.05 each	**250,000**	250,000

	Number of ordinary shares of HK$0.05 each	**Amount** HK$'000
Issued and fully paid:		
At 1 April 2015, 31 March 2016 and 1 April 2016	1,449,520,000	72,476
Exercise of share options *(note)*	2,000,000	100
At 31 March 2017	**1,451,520,000**	**72,576**

Note: During the year ended 31 March 2017, 2,000,000 share options are exercised which results in 2,000,000 shares being issued at a price of HK$0.3 per share.

Share options

Details of the Company's share option scheme and the share options are included in note 25.

25. EQUITY COMPENSATION PLANS

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 approximately 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 consolidated 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 of the Company, 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.

25. EQUITY COMPENSATION PLANS (Continued)

Share Option Scheme (Continued)

On 25 November 2016, the Company granted total of 53,400,000 share options to executive directors and independent non-executive directors of the Company and certain employees of the Group under the Scheme, 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$0.3 each with no fulfilment of the conditions under the Scheme. The grant of the options is part of the incentive offered to the grantees for their past 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.

The following share options were granted and exercised under the Scheme during the year:

	Weighted average exercise price HK$ per share	**Number of share options**
At 1 April 2016	0.3	–
Share options granted for the year	0.3	53,400,000
Share options exercised for the year	0.3	(2,000,000)
At 31 March 2017		**51,400,000**

During the year ended 31 March 2017, 53,400,000 (2016: Nil) share options were granted, 2,000,000 share options were exercised and no share options were lapsed under the Scheme.

At 31 March 2016, no share options were outstanding under the Scheme, No share options were granted, exercised or lapsed under the Scheme during the year ended 30 March 2016.

The closing price of the Company's share immediately before the date of grant of the options was HK$0.3 and the estimated fair value of each share under each share option at the date of grant is HK$0.1323 and HK$0.0904 for directors and employees respectively, were calculated using Black-Scholes Pricing Model performed by a professional independent valuer, taking into account the terms and conditions upon which the share options were granted. The assumptions used for the calculation are as follows:

	2017
Closing share price at date of grant	**HK$0.3**
Exercise price	**HK$0.3**
Expected volatility	**52.99%**
Expected option life	**5 years**
Expected dividend yield	**0%**
Risk-free interest rate	**1.11%**

25. EQUITY COMPENSATION PLANS (Continued)

Share Option Scheme (Continued)

The variables and assumptions used above are based on the best estimate of an independent professional valuer. The expected volatility is based on the historical daily volatility of the Company's stock price (calculated based on the remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Change in the subjective input assumptions could materially affect the fair value estimate.

There are no vesting period and condition regarding the share options granted. The fair value of the share options granted during the year was approximately HK$6,311,000 (2016: HK$Nil), of which the Group recognised equity-settled share option expense of approximately HK$6,311,000 (2016: HK$Nil) in the consolidated statement of profit or loss for the year ended 31 March 2017.

26. 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 consolidated financial statements.

(a) Contributed surplus

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

(b) Statutory surplus reserve

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.

(c) Employee share-based compensation reserve

The employee share-based compensation reserve represents the value of director and employee services in respect of share options granted under the share option as set out in note 25.

(d) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).

27. DISPOSAL OF SUBSIDIARIES

In November and December 2015, the Group disposed of its entire interest in YNLF to YLI, for a consideration of HK$52,000,000, and its entire interest in 雲南龍潤實業有限公司 (Yunnan Longrun Enterprise Company Limited)[@] ("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
Due from a related company		2,192
Cash and bank balances		17,881
Trade payables		(18,870)
Other payables and accruals		(15,763)
Due to a related company		(898)
Income tax recoverable		283
Deferred tax liabilities	*23*	(326)
		43,344
Release of exchange fluctuation reserve upon disposal		(9,914)
Gain on disposal of subsidiaries		18,811
		52,241
Satisfied by:		
Consideration receivable		52,000
Cash		241
		52,241

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

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)

28. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2017, 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 approximately HK$565,000 (2016: HK$892,000).

29. CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 March 2017 (2016: Nil).

30. 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 conditions.

At 31 March 2017, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**89**	86

(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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**3,619**	7,021
In the second to fifth years, inclusive	**2,749**	6,134
	6,368	13,155

31. RELATED PARTY TRANSACTIONS AND BALANCES

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

	Notes	**2017 HK$'000**	2016 HK$'000
Sales of tea products to:			
Ideality Group^	*(i), (vi)*	**9,553**	27,442
Purchases of tea products from:			
CLRT^	*(iii), (vi)*	**16,688**	29,701
FLRT^	*(iii), (vi)*	**20,412**	34,123
YLRT	*(iv), (vi)*	**103**	891
LRTG^	*(ii), (vi)*	**31,736**	45,406
Purchases of pharmaceutical products from:			
YNLF	*(v), (vi)*	**1,094**	–
		70,033	110,121
Rental expense incurred to:			
YLRT	*(iv), (vi)*	**484**	512

Notes:

(i) Ideality Group is beneficially owned as to 85.5% and 14.5% by Dr. Chiu and Mr. Jiao respectively, Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company.

(ii) LRTG is beneficially owned as to 97% and 3% by Dr. Chiu and Mr. Jiao respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also substantial shareholder of the Company.

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

(iv) YLRT is beneficially owned as to 77% and 23% by Dr. Chiu and Mr. Jiao respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also substantial shareholder of the Company.

(v) YNLF is beneficially owned as to 89.4% and 10% by Dr. Chiu and Mr. Jiao respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also substantial shareholder of the Company.

(vi) 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 2017 also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

31. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Outstanding balances with related parties

In addition to those balances disclosed elsewhere in these consolidated 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, non-interest bearing and have no fixed terms of repayment. YLRP is jointly owned by 龍潤藥業集團有限公司 (Long Run Pharmaceuticals Group Limited)@ ("LRGL") and YLI. LRGL and YLI are beneficially owned as to 90% and 10% by Dr. Chiu and Mr. Jiao, respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company.

(ii) The amounts due to directors of the Company are unsecured, non-interest bearing and without fixed terms of repayment.

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

(c) Compensation of key management personnel (including directors of the Company) of the Group

	2017	2016
	HK$'000	HK$'000
Short term employee benefits	**10,701**	11,916
Equity-settled share option expense	**6,039**	–
Post-employment benefits	**105**	185
	16,845	12,101

32. FINANCIAL INSTRUMENTS BY CATEGORY

The financial assets and liabilities of the Group as at 31 March 2017 and 2016 are loans and receivables and financial liabilities stated at amortised cost, respectively.

33. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Except for the Convertible Bonds, management has assessed that the fair values of financial assets and other financial liabilities including cash and cash equivalents, time deposits with original maturities of more than three months, trade and bills receivables, trade payables, loan receivable, deposits and other receivables, other payables and accruals, amounts due to related companies, amounts due to directors of the Company and 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 value of the debt component of convertible bonds is determined 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 Convertible Bonds as at 31 March 2017 was assessed to be insignificant.

The fair value of the Convertible Bonds approximates to their carrying amounts as at 31 March 2017.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise 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 associated with the Group's financial instruments are credit risk, liquidity risk and market risk (currency risk and interest rate risk). The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Currency risk

The Group's primary foreign currency exposure arises from its distribution of tea and other food products in the PRC. The functional currency of these operating units is RMB and most of the financial instruments are denominated in RMB. No foreign currency risk has been identified for the financial assets and financial liabilities in the PRC as they were denominated in a currency same as the functional currencies of the operating units.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 37.2% (2016: 47.2%) of the Group's trade and bills receivables at the end of the reporting period.

The Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The allowance for trade and bills receivables is based upon a review of the expected 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, time deposits with original maturities of more than three months, deposits and other receivables and loan receivable, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure being equal to the carrying amounts of these instruments. There is no significant concentration of credit risk within the Group in relation to the other financial assets.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade and bills receivables and loan receivable) 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 finance lease payables and convertible bonds. In addition, banking facilities have been put in place for contingency purpose.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The following table includes both interest and principal cash flows:

	2017				
	On demand or within 1 year HK$'000	**In the second year HK$'000**	**3 to 5 years HK$'000**	**Total undiscounted cash flows HK$'000**	**Carrying amount HK$'000**
Trade payables	**22,383**	**–**	**–**	**22,383**	**22,383**
Other payables and accruals	**28,401**	**–**	**–**	**28,401**	**28,401**
Due to related companies	**1,409**	**–**	**–**	**1,409**	**1,409**
Due to directors of the Company	**3,507**	**–**	**–**	**3,507**	**3,507**
Finance lease payables	**435**	**280**	**207**	**922**	**876**
Convertible bonds (assume no conversion)	**3,564**	**68,364**	**–**	**71,928**	**52,032**
	59,699	**68,644**	**207**	**128,550**	**108,608**

	2016				
	On demand or within 1 year HK$'000	In the second year HK$'000	3 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Trade payables	28,455	–	–	28,455	28,455
Other payables and accruals	26,051	–	–	26,051	26,051
Due to related companies	644	–	–	644	644
Due to directors of the Company	7,945	–	–	7,945	7,945
Finance lease payables	311	311	155	777	749
	63,406	311	155	63,872	63,844

Interest rate risk

The Group does not expose to cash flow interest rate risk arising from its loan receivable, finance lease payables and convertible bonds as the interest rates underlying Group's finance lease payables, loan receivable and convertible bonds are fixed. The Group is exposed to cash flow interest rate risk in relation to its variable-rate bank balances. However, the sensitivity analysis is not prepared as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

35. CAPITAL RISK 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 2017 and 2016.

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:

	2017 **HK$'000**	2016 HK$'000
Total liabilities	**137,404**	98,272
Total equity	**204,276**	226,152
Gearing ratio	**67.3%**	43.5%

36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

	Note	**2017** **HK$'000**	2016 HK$'000
Non-current assets			
Property, plant and equipment		**36**	16
Investments in subsidiaries		**117,242**	136,884
Total non-current assets		**117,278**	136,900
Current assets			
Prepayments, deposits and other receivables		**264**	180
Due from subsidiaries		**116,106**	69,051
Cash and cash equivalents		**77**	77
Total current assets		**116,447**	69,308
Current liabilities			
Accruals		**10,931**	9,586
Due to a subsidiary		**7,186**	5,991
Due to directors		**2,520**	6,963
Total current liabilities		**20,637**	22,540
Net current assets		**95,810**	46,768
Total assets less current liabilities		**213,088**	183,668
Non-current liability			
Convertible bonds	*22*	**52,032**	–
Total non-current liability		**52,032**	–
Net assets		**161,056**	183,668
Equity			
Issued share capital		**72,576**	72,476
Reserves *(note)*		**88,480**	111,192
Total equity		**161,056**	183,668

36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Note:

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

	Share premium HK$'000	Contributed surplus HK$'000	Employee share-based compensation reserve HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2015	252,319	46,999	–	–	(179,520)	119,798
Loss and total comprehensive loss for the year	–	–	–	–	(8,606)	(8,606)
At 31 March 2016 and 1 April 2016	252,319	46,999	–	–	(188,126)	111,192
Loss and total comprehensive loss for the year	–	–	–	–	(42,072)	(42,072)
Recognition of equity component of convertible bonds	–	–	–	12,914	–	12,914
Transaction cost attributable to issuance of convertible bonds allocated to equity component	–	–	–	(365)	–	(365)
Exercise of share options	682	–	(182)	–	–	500
Recognition of equity-settled share based payments	–	–	6,311	–	–	6,311
At 31 March 2017	**253,001**	**46,999**	**6,129**	**12,549**	**(230,198)**	**88,480**

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

37. NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these consolidated financial statements:

HKAS 28 and HKFRS 10 amendments (2011)	Sale or contribution of assets between an investor and its associate or joint venture[1]
HKAS 7 Amendments	Disclosure Initiative[2]
HKAS 12 Amendments	Recognition of Deferred Tax Assets for Unrealised Losses[2]
HKAS 19	Plan Amendment, Curtailment or Settlement (amendments)[4]
HKFRS 2 Amendments	Classification and Measurement of Share-based Payment Transactions[3]
HKFRS 9	Financial Instruments[3]
HKFRS 9 Amendments	Prepayment Features with Negative Compensation[4]
HKFRS 15	Revenue from Contracts with Customers[3]
HKFRS 15 Amendments	Clarification to HKFRS 15 Revenue Contracts with Customers[3]
Amendments to HKAS 40	Transfers of Investment Property[3]
HK (IFRIC) – Interpretation 22	Foreign Currency Transactions and Advance Consideration[3]
HKFRS 16	Leases[4]
HK (IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[4]

1 *The amendments were original intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred. Early application of the amendments continues to be permitted.*

2 *Effective for annual periods beginning on or after 1 January 2017*

3 *Effective for annual periods beginning on or after 1 January 2018*

4 *Effective for annual periods beginning on or after 1 January 2019*

5 *Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018 (as applicable)*

The Group has already commenced an assessment of the related impact of adopting the above new and revised HKFRSs. So far, it has concluded that the above new and revised HKFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the consolidated financial statements of the Group except for the following:

HKFRS 9 "Financial Instruments"

HKFRS 9 has introduced new requirements for a) classification and measurement of financial assets, b) impairment of financial assets and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 to be subsequently measured at amortised cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

37. NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (Continued)

HKFRS 9 "Financial Instruments" (Continued)

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

With regard to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under HKAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk.

With regard to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group is still in the process of assessing the impact of HKFRS 9. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

37. NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group is still in the process of assessing the impact of HKFRS 15. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

HKFRS 16 "Leases"

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

The Group is in the process of assessing the impact of HKFRS 16. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

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 consolidated financial statements, is set out below:

RESULTS

	Year ended 31 March				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**123,690**	217,659	256,439	286,514	271,215
(Loss)/profit before tax	**(32,167)**	4,799	(207,441)	15,138	6,145
Income tax (expense)/credit	**(264)**	(2,385)	3,564	(230)	(5,223)
(Loss)/profit for the year	**(32,431)**	2,414	(203,877)	14,908	922
Attributable to:					
Owners of the Company	**(32,431)**	2,414	(203,877)	14,908	6,397
Non-controlling interests	**–**	–	–	–	(5,475)
	(32,431)	2,414	(203,877)	14,908	922

ASSETS AND LIABILITIES

	As at 31 March				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**341,680**	324,424	361,267	591,623	561,046
Total liabilities	**(137,404)**	(98,272)	(119,729)	(146,768)	(130,975)
	204,276	226,152	241,538	444,855	430,071