LONGRUN TEA GROUP COMPANY LIMITED

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

LongRun
龍潤

Annual Report
2019

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

INTERNAL CONTROL COMMITTEE

Mr. Lam Siu Hung *Chairman*
Dr. Chiu Ka Leung
Dr. He William
Mr. Kwok Hok Lun

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

Moore Stephens CPA Limited
Certified Public Accountants
801-806 Silvercord,
Tower 1, 30 Canton Road,
Tsimshatsui, Kowloon, Hong Kong

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 ADVISOR

Corporate Governance Professionals Limited
(formerly know as "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 54, 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 2019.

In 2018, China's economy has continued to slow down, coupled with the threats posed by the rapid development of online shopping and the uncertainties of the global economy, traditional retail sales of consumer goods in China has been under tremendous pressure. It is likely that the general consumer market in China will continue to face uncertainties and remain very competitive.

Against such background, the Group's continuous effort in exploring new business opportunities in the direct selling area has paid off. The Group has started to supply tea products to one of the largest direct selling enterprises in China for their onward distribution through its direct selling platform in 2018.

In addition, the Group also successfully engaged two independent tea product suppliers in 2018 with a view to reduce our reliance on its major supplier. The Group will continue to explore opportunities to set up its own tea manufacturing base in Yunnan Province.

The year of 2019 will be full of challenges. The global economy is affected by various uncertainties such as US interest rate upcycle and in particular, the escalating US-China trade tension. Despite such uncertainties, the Group will continue to focus on promoting tea culture, brand building, new product development and new distribution channel development to strengthen its operation.

Appreciation

On behalf of the Board, I wish to take this opportunity to extend my appreciation to our shareholders, customers, business partners and suppliers for their continued support, and for their confidence in the Group. I would also like to express our sincere thanks to the Group's management and staff for their commitment, dedication, hard work and contributions throughout the year.

Chiu Ka Leung
Chairman

26 June 2019

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 March 2019, the revenue of the Group increased by approximately 16.1% to approximately HK$94,820,000 from approximately HK$81,670,000 for the year ended 31 March 2018. The increase in revenue was mainly attributable to the increase in the sales of tailor made tea products to customers associated with direct selling platform in the PRC. The gross profit of the Group decreased by approximately 4.0% to approximately HK$32,169,000 for the year ended 31 March 2019 from approximately HK$33,512,000 for the year ended 31 March 2018. Such decrease was mainly attributable to the decrease in profit margin of the tea business brought by (i) the continuous modification of rules and regulations by the local government on tourism related selling activities; and (ii) a lower profit margin derived from sales associated to direct selling platforms.

Other income and gains of the Group for the year ended 31 March 2019 increased to approximately HK$8,282,000 from approximately HK$3,601,000 for the corresponding period of last year, mainly due to the increase from gain on disposal of the Group's financial assets at fair value through profit and loss of approximately HK$5,391,000.

Selling and distribution expenses remained at roughly the same level at approximately HK$31,832,000 for the year ended 31 March 2019 as compared to approximately HK$30,429,000 for the year ended 31 March 2018.

Administrative expenses amounted to approximately HK$32,441,000 for the year ended 31 March 2019, roughly remaining at the same level of approximately HK$30,946,000 for the corresponding period of last year.

Finance cost decreased to approximately HK$9,589,000 for the year ended 31 March 2019 from approximately HK$10,325,000 for the year ended 31 March 2018. Such decrease was mainly due to the decrease in effective interest expenses on the Convertible Bonds (as defined below). On 25 January 2019, being the maturity date of the Convertible Bonds, the Company had fully paid the principal amount of the Convertible Bonds and interests accrued thereon. Since then, there would be no further effective interest expense derived from the Convertible Bonds for the coming financial year.

Income tax expense increased to approximately HK$714,000 for the year ended 31 March 2019 from approximately HK$15,000 for the year ended 31 March 2018. The increase was resulted from income tax provided for the gain on disposal of financial assets at fair value through profit or loss.

Loss attributable to owners of the Company for the year ended 31 March 2019 was approximately HK$36,920,000 (for the year ended 31 March 2018: loss attributable to owners of the Company of HK$33,902,000). The increase of loss for the year under review as compared to last year was mainly due to the decrease in gross profit resulting from the decrease in overall profit margin and increased expected credit loss allowances on trade receivables provided for the year ended 31 March 2019.

Basic loss per share was HK2.54 cents for the year ended 31 March 2019 against basic loss per share HK2.34 cents for the year ended 31 March 2018.

Management Discussion and Analysis

BUSINESS REVIEW

Tea and Other Food Products Businesses

During the year under review, the Group focused on distributing tea products under the well-established "Longrun (龍潤)" brand in the PRC market mainly through its distribution network of franchised and self-owned tea shops. Despite the poor spending sentiment had continued to affect the consumer market in the PRC generally, the Group made progress in diversifying its customer base by providing tailor made non-"Longrun (龍潤)" branded tea products to corporate customers in the PRC. Revenue for the year from tea and other food products businesses was approximately HK$90,947,000 (for the year ended 31 March 2018: HK$77,028,000), accounting for approximately 95.9% (for the year ended 31 March 2018: 94.3%) of the Group's total revenue.

In the second half of the financial year of 2019, the Group has successfully engaged two independent tea product manufacturers in Yunnan Province. The tea products procured from these two independent tea product manufacturers were in satisfactory quality standard and were sold through our network of franchised and self-owned tea shops. By diversifying its procurement sources, the Group can effectively reduce its potential business risk associated with the over reliance on a single supplier.

Tea Shops

The Group's traditional tea products bearing "Longrun (龍潤)" brand, including tea cakes, tea bricks, loose tea leaves, tea gift sets, instance tea essence and tea bags, etc., are sold in the Group's traditional tea shops network comprising both franchised and self-owned tea shops. As at 31 March 2019, the Group managed a network comprising a total of over 580 tea shops located in Mainland China.

Given the challenging consumer market, the management will continue to actively manage the network with a view to enhance brand and product recognitions in the PRC.

Mega Retail Outlets Targeting Tourists

Currently, there are two mega retail outlets in Yunnan Province whereby the Group's tourism associated customers will promote and distribute "Longrun (龍潤)" tea products to both domestic and international tourists travelling to Yunnan Province. The two mega retail outlets have a gross total area of over 5,500 square meters. Given the continuous modification of rules and regulations by the local government of tourism related selling activities, the operating environment of tourists related retail sales will continue to be very challenging in the future.

Location of Mega Retail Outlet	Highlight
Kunming International Convention and Exhibition Center (昆明國際會展中心)	A place for international exhibitions and fairs
Kunming World Horticultural Expo Garden (昆明世界園藝博覽園)	A must-see tourist attraction in Kunming

Direct Selling

The Group distributed its tea products to direct selling enterprises in the PRC since 2014. Tea products sold to direct selling enterprises are mainly tailor made non-"Longrun (龍潤)" products. For the year under review, the consolidation and enhanced regulation of the PRC direct selling activities are still affecting the direct selling industry. However, the effect of industry consolidation and enhanced regulation is expected to decrease over time.

Against such background, the Group made significant progress in supplying tea products to one of the largest direct selling enterprises in the PRC, which contributed to the increase in revenue generated from direct selling platform associated customers as compared to the last year. Those tea products sold which were tailor made tea products bearing the customer's brand name and onward distributed through its own direct selling platform.

Management Discussion and Analysis

The Group will continue to strengthen its business relationship with its customers by deploying more resources in new product design and development.

Healthcare and Pharmaceutical Business

During the year under review, revenue from healthcare and pharmaceutical business was approximately HK$3,873,000 (for the year ended 31 March 2018: HK$4,642,000), accounting for approximately 4.1% (for the year ended 31 March 2018: 5.7%) of the Group's total revenue. For the year ended 31 March 2019, the decrease in revenue from the healthcare and pharmaceutical business was mainly due to the intense competition in the health supplement market. In this regard, the Company is formulating a campaign to (i) educate the general public about the benefits of detoxification; (ii) expand the existing sales channels; and (iii) explore opportunities to sell the Group's products through various social media platforms and online stores.

PROSPECTS

The Group's operating environment remains very challenging. Traditional retail sales of consumer goods in the PRC has been under tremendous pressure, showing a continuous slowdown. Coupled with the trade tensions between China and the United States, it is likely that the general consumer market in China will continue to face uncertainties and remain very competitive. Despite the uncertainties, the Group will continue to focus on brand building and new product development. Furthermore, it is essential for the Group to continue to expand its franchise network of tea shops and to explore other new distribution channels with a view to broaden its customer base. In addition, the Group will continue to explore opportunities to set up its own tea manufacturing base in Yunnan Province with a view to further reduce its reliance on its suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2019, the Group had current assets of HK$175,931,000 (2018: HK$287,745,000) and cash and bank balances and time deposits with original maturities of more than three months of HK$110,632,000 (2018: HK$249,649,000). The Group's current liabilities as at 31 March 2019 were HK$42,576,000 (2018: HK$113,050,000).

As at 31 March 2019, total equity was HK$138,084,000 (2018: HK$184,210,000). The Group had finance lease payables of HK$200,000 as at 31 March 2019 (2018: HK$467,000). The gearing ratio as at 31 March 2019, being the ratio of total liabilities to total equity, was 30.9% (2018: 61.6%).

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 independent third parties. The Convertible Bonds will be matured on the second anniversary of the date of issue (the "Maturity Date") 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. 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. No Convertible Bonds had ever been converted or cancelled prior to the Maturity Date. During the year ended 31 March 2019 and upon the Maturity Date, the Company had paid to the holders of the Convertible Bonds a sum of HK$68,344,000, being an amount equal to the aggregate of 100% of the principal amount of the Convertible Bonds outstanding and interest accrued and outstanding up to the Maturity Date pursuant to the terms and conditions of the Convertible Bonds. All Convertible Bonds were cancelled thereafter. Details of the Convertible Bonds are set out in the announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017, 6 February 2017 and 15 February 2019.

EMPLOYEES

As at 31 March 2019, the Group had 231 employees (31 March 2018: 244 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 share option scheme adopted by the Company on 17 August 2012 and offers discretionary bonus to its employees.

CONTINGENT LIABILITIES

As at 31 March 2019, the Group did not have any significant contingent liabilities.

EXCHANGE RISK

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

PLEDGE OF THE GROUP'S ASSETS

As at 31 March 2019, no Group's assets have been pledged.

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.

Corporate Governance Professionals Limited ("CGPL") (formerly known as 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 by Baker Tilly 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 and implemented by the Board to address the deficiencies. The audit committee of the Company considered that the remedial measures implemented by the Company are sufficient and adequate to address the deficiencies. Details of which were set out in the Company's announcements dated 22 June 2018 and 24 August 2018.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Chiu Ka Leung, aged 55, is the founder of the Group. He is the Chairman of the Board and of the Nomination Committee, a member of the Remuneration Committee, the Internal Control Committee and 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 72, 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 45, 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 47, is a member of the Executive Committee and the Internal Control 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).

Independent Non-executive Directors

Mr. Lam Siu Hung, aged 60, joined the Group in September 2004. He is the Chairman of the Audit Committee, the Remuneration Committee and the Internal Control 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.

Biographical Details of Directors and Senior Management

Mr. Guo Guoqing, aged 56, 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 42, joined the Group in October 2006. He is a member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Internal Control 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 54, 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.

Senior Management

Mr. Han Ping, Joseph, aged 49, 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 50, 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 50, is the Financial Controller and Company Secretary of the Company. Mr. Hui is in charge of the financial and company secretarial affairs of the Group. Mr. Hui is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Hui graduated from the Lingnan University with a bachelor degree with honour in business administration in 1997. Before joining the Group in February 1999, Mr. Hui has over ten years of experience in auditing, accounting and finance and worked with an international accounting firm in Hong Kong.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of 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 2019, the Company has applied the principles and complied with the code provisions set out in the CG Code, except for the code provision A.4.2. Key corporate governance principles and practices of the Company as well as the details of the foregoing deviation are summarized below.

A THE BOARD

A1. Responsibilities and Delegation

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

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

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

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

A2. Board Composition

The composition of the Board as at 31 March 2019 is as follows:

Executive directors:

Dr. Chiu Ka Leung	*(Chairman of the Board, Chairman of the Nomination Committee, Member of the Executive Committee, the Remuneration Committee and the Internal Control Committee)*
Ms. Yeh Shu Ping	*(Vice-chairman of the Board, Chief Executive Officer, Chairman of the Executive Committee, 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, Member of the Internal Control Committee)*

Independent non-executive directors:

Mr. Lam Siu Hung	*(Chairman of the Audit Committee, the Remuneration Committee and the Internal Control 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, the Nomination Committee and the Internal Control Committee)*
Dr. Liu Zhonghua	*(Member of both the Remuneration Committee and the Nomination Committee)*

Throughout the year ended 31 March 2019, 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.

Code provision A.4.2 of the CG Code states that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. Due to the Audit Findings, the publication of annual results and dispatch of annual reports 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, had been deferred. Accordingly, the Company failed to hold its annual general meeting within the times stipulated under the Listing Rules and the Company's articles of association, and that Mr. Jiao Shaoliang and Dr. He William did not retire by rotation at least once every 3 years in accordance with the said code provision A.4.2. At the annual general meeting of the Company held on 24 December 2018, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. He William, Mr. Kwok Hok Lun and Dr. Liu Zhonghua were retired and re-elected. Accordingly, the said code provision A.4.2 of the CG Code was then complied with.

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 2019, 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; and read technical bulletins and other publications on subjects relevant to their responsibilities and obligations as directors under the Listing Rules and relevant regulatory requirements.

– 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 2019 are set out below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive directors:					
Dr. Chiu Ka Leung	7/7	–	1/1	1/1	1/1
Ms. Yeh Shu Ping	7/7	–	1/1	–	1/1
Mr. Jiao Shaoliang	7/7	–	–	–	1/1
Dr. He William (also known as Lu Pingguo)	7/7	–	–	–	1/1
Independent non-executive directors:					
Mr. Lam Siu Hung	7/7	4/4	1/1	1/1	1/1
Mr. Guo Guoqing	2/7	2/4	0/1	0/1	0/1
Mr. Kwok Hok Lun	7/7	4/4	1/1	1/1	1/1
Dr. Liu Zhonghua	1/7	–	0/1	0/1	0/1

In addition, the Chairman of the Board held a meeting with the independent non-executive directors without the presence of executive directors, and a meeting with the executive directors without the presence of independent non-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 2019.

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

During the year ended 31 March 2019, on 1 August 2018, an internal control committee was set up by the Company for enhancing the internal control procedures and corporate governance of the Group. Accordingly, the Company currently has five Board committees, namely, the Executive Committee, the Remuneration Committee, the Nomination Committee, the Audit Committee and the Internal Control Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference which are available on the Stock Exchange's website (www.hkexnews.hk) and on the Company's website (except for the written terms of reference of the Executive Committee and the Internal Control 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 management and day-to-day operations of the Company.

B2. Remuneration Committee

The Remuneration Committee comprises a total of six members, being two executive directors, namely Dr. Chiu Ka Leung and Ms. Yeh Shu Ping, and four independent non-executive directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua. The majority of the Remuneration Committee members are independent non-executive directors. The chairman of the Remuneration Committee is Mr. Lam Siu Hung.

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

During the year ended 31 March 2019, the Remuneration Committee has held 1 meeting (the attendance records of each Committee member are set out in section A6 above) and and performed the following major works:

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

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

B2. Remuneration Committee (Continued)

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 March 2019 is set out below:

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

Details of the remuneration of each director of the Company for the year ended 31 March 2019 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.

During the year under review, the Company has adopted the Director Nomination Policy. Such policy, devising the criteria and process of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing better Board effectiveness and diversity as well as in compliance with the applicable rules and regulations.

The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents. In selecting and evaluating candidates for directorship, the Nomination Committee may make reference to certain criteria, such as the Company's needs, the integrity, experience, skills and professional knowledge of the candidate, and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. Each candidate shall be ranked by order of preference based on the needs of the Company and his/her reference check. The Nomination Committee shall report its findings and make recommendation to the Board on the appointment of appropriate candidate for directorship for decision.

B3. Nomination Committee (Continued)

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. The Company would assess regularly the diversity profile of the Board and, where applicable, the Senior Management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any. A Board diversity policy was adopted by the Company, pursuant to which the Board and the Nomination Committee is responsible for reviewing and assessing the Board composition under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience) and for ensuring that changes to the Board's composition can be managed without undue disruption. 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 that are aligning with the Company's strategy and objectives.

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.

During the year ended 31 March 2019, 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;

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

– Recommendation of the re-election of the retiring directors at the annual general meeting held on 24 December 2018.

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 2019, the Audit Committee has held 4 meetings (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

– Review and discussion of the annual consolidated financial statements, results announcements and reports for the years ended 31 March 2017 and 2018, the related accounting principles and practices adopted by the Group and the relevant audit findings;

– Review and discussion of the interim financial statements, results announcements and reports for the six months ended 30 September 2017 and 2018, and the related accounting principles and practices adopted by the Group;

– Review and discussion of the continuing connected transactions of the Company for the years ended 31 March 2018 and 2019;

B4. Audit Committee (Continued)

– Consideration and discussion of the major internal audit issues for the year ended 31 March 2018 and the six months ended 30 September 2018;

– Assessment of the effectiveness of the Group's risk management and internal control systems, for the years ended 31 March 2017 and 2018, based on the reports from external professional firms:

– Discussion of the overall risk management and internal control system of the Company, including the financial monitoring, operational monitoring and compliance monitoring, and assess the adequacy and effectiveness of the system; and

– Review of the major errors that have been occurred or the major monitoring weaknesses that have been identified and recommendation of appropriate remedies to the Board.

Moore Stephens CPA Limited attended 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 re-appointment of Moore Stephens CPA Limited as external auditor of the Company.

B5. Internal Control Committee

The Internal Control Committee comprises a total of four members, being two executive directors, namely Dr. Chiu Ka Leung and Dr. He William, and the two independent non-executive directors namely Mr. Lam Siu Hung and Mr. Kwok Hok Lun. The chairman of the Internal Control Committee is Mr. Lam Siu Hung. The Internal Control Committee is responsible for reviewing and monitoring the Company's risk management and internal control strategies, policies and guidelines to safeguard the internal control procedures and corporate governance of the Group.

Subsequent to the year end, the Internal Control Committee has held one meeting, in which the risk management and internal control systems of the Company for the year ended 31 March 2019 were reviewed and relevant recommendations were made to the Board.

C. 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/Internal Control Committee and, if necessary, an external firm of professional internal control consultants 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/Internal Control 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, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate.

C. RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

In this respect, the Company appointed Corporate Governance Professionals Limited ("CGPL") (formerly known as "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. Based on the review results of CGPL, the Board and the Audit Committee/Internal Control Committee are satisfied that the Group's internal control system is sound and effective.

Our Enterprise Risk Management Framework

The Group fine-tuned its enterprise risk management framework in 2019. 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.

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 CGPL. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Internal Control 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. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

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.

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

The directors of the Company have acknowledged their responsibilities for preparing the financial statements of the Group for the year ended 31 March 2019.

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.

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 2019, Mr. Hui has taken not less than 15 hours of relevant professional training.

F. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 March 2019 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to the Company's auditor in respect of audit services and non-audit services for the year ended 31 March 2019 are analyzed below:

Type of services provided by the external auditor	**Fees paid/payable** (HK$)
Audit services by Moore Stephens CPA Limited:	
– audit fee for the year ended 31 March 2019	880,000
Non-audit services by Moore Stephens CPA Limited:	
– agreed-upon procedures on interim financial information for the six months ended 30 September 2018	200,000
TOTAL:	1,080,000

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparent and timely disclosure of corporate information, which enables shareholders and investors to make the best investment decision.

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

Address:	Unit 2201, 22/F, Bank of America Tower, 12 Harcourt Road Central, Hong Kong/ Room 3007A-B, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong
Fax number:	(852) 3904 3464/(852) 3602 2868
Email:	ird@longruntea.com

Inquiries are dealt with in an informative and timely manner.

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 2019.

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 33 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.

DIVIDEND POLICY

The Board has adopted the Dividend Policy to set out the basic principles and criteria based on which the Board may consider in determining the distribution of the dividends. Such declaration and payment of dividends shall remain to be determined at the absolute discretion of the Board, after considering the Company's profitability, capital requirements and other factors that the Board deem relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of the Cayman Islands and the Articles. The Board will continually review the said dividend policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

RESULTS AND DIVIDENDS

The losses of the Group for the year ended 31 March 2019 and the state of affairs of the Group at that date are set out in the financial statements on pages 54 to 125.

The directors do not recommend the payment of a dividend for the year ended 31 March 2019 (2018: 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 126. This summary does not form part of the audited consolidated financial statements of the Group for the year ended 31 March 2019.

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.

Report of the Directors

SHARE CAPITAL AND CONVERTIBLE BONDS

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 35 to the consolidated financial statements and in the Consolidated Statement of Changes in Equity on page 58 respectively.

DISTRIBUTABLE RESERVES

At 31 March 2019, the Company had no reserves available for distribution.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$455,000.

ENVIRONMENTAL POLICIES

The Group encourages environmental protection and promotes such awareness to all its employees. The Group commits to the principle and practice of recycling and reducing. To help conserve the environment, the Group implements green office practices such as the use of recycled paper for printing and copying as well as doublesided 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 reviews its environmental practices from time to time and considers 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 32 to 48 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 97% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 51%.

During the year under review, sales to the Group's five largest customers accounted for approximately 47% of the total sales for the year and sales to the largest customer included therein amounted to approximately 33%.

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 largest supplier and three of the five largest suppliers which accounted for approximately 91% of the total purchases of the Group.

Mr. Jiao Shaoliang, a director of the Company, had beneficial interests in the largest supplier and three of the five largest suppliers which accounted for approximately 91% of the total purchases of the Group.

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

DIRECTORS

The directors of the Company during the year under review 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

In accordance with the Articles, Dr. Chiu Ka Leung, Mr. Lam Siu Hung and Mr. Guo Guoqing will retire as directors of the Company at the annual general meeting in 2019 (the "2019 AGM"). The above retiring directors, being eligible, will offer themselves for re-election at the 2019 AGM.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for a term of two years 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 2019 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.

Report of the Directors

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 TRANSACTION" and in note 30 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 under review.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "CONNECTED TRANSACTION" and in note 30 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 2019, 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	35,545,500	2.45%
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%

(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	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" in this annual report.

* *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 2019.*

In addition to the above, as at 31 March 2019, Dr. Chiu Ka Leung holds one ordinary share in each of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited and Long Far Health Products Limited (in both cases in trust for Long Far Pharmaceutical (BVI) Limited and both of which are indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the then minimum company membership requirement.

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

Save as disclosed above and in the section headed "SHARE OPTIONS" below, as at 31 March 2019, 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 2019, 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 corporations *(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 Ka Leung 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 2019.*

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

Save as disclosed above, as at 31 March 2019, 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.

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 2019 are as follows:

	Number of share options							
Name or category of option holder	**Outstanding as at 1 April 2018**	**Granted during the year**	**Exercised during the year**	**Lapsed/ cancelled during the year**	**Outstanding as at 31 March 2019**	**Date of grant of share options**	**Exercise period of share options**	**Exercise price per share** *(Note)*
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	16,000,000	–	–	–	16,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK$0.30
Subtotal for employees:	16,000,000	–	–	–	16,000,000			
TOTAL:	51,400,000	–	–	–	51,400,000			

SHARE OPTIONS (Continued)

Note: 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 91,552,000 shares, representing approximately 6.31% 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") had been issued by the Company to 7 placees. The Convertible Bonds could be converted into 240,000,000 ordinary shares of the Company at any time during the conversion period at a fixed conversion price of HK$0.27 subject to certain anti–dilutive adjustments at the discretion of the holders that were 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 administrative expenses. Up to the maturity date of the Convertible Bonds (the "Maturity Date"), no notice had been received from the holders requesting conversion.

Since no suitable investment opportunities had been identified before the Maturity Date, the Company had fully repaid the principal and interests accrued of the Convertible Bonds on 25 January 2019.

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, 6 February 2017 and 15 February 2019 (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 year under review as at 31 March 2019:

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 2019
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	Since no suitable investment opportunities had been identified before the Maturity Date, the amount of HK$27.8 million were used for the repayment of the principal and interests accrued of the Convertible Bonds on 25 January 2019.
(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.	The amount of HK$35 million were used for the repayment of the principal and interests accrued of the Convertible Bonds on 25 January 2019.

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 TRANSACTION

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

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"). 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 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 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 2019, the amount of fees paid to LRTG under the Transaction amounted to HK$55,939,000, which was within the above annual cap amount for the financial year ended 31 March 2019 of HK$186,000,000. Further details of the Transaction are included in note 30(a) to the consolidated financial statements.

The independent non-executive directors of the Company have reviewed the Transaction for the year ended 31 March 2019 and confirmed that the Transaction 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 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, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Moore Stephens CPA Limited have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transaction 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.

* *For identification purposes only*

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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 23 August 2019 to Wednesday, 28 August 2019 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on 28 August 2019, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre,183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 22 August 2019.

AUDITORS

Moore Stephens CPA Limited, the auditor of the Company, will retire and, being eligible, offer themselves for re-appointment at the 2019 AGM. A resolution will be submitted to the 2019 AGM to seek shareholders' approval on the re-appointment of Moore Stephens CPA Limited as the Company's auditor until the conclusion of the next annual general meeting.

ON BEHALF OF THE BOARD

Chiu Ka Leung
Chairman

Hong Kong
26 June 2019

Environmental, Social and Governance Report

1. APPROACH

Longrun Tea Group Company Limited (the "Company") and its subsidiaries (collectively the "Group" or "We") were involved in the trading and distribution of pharmaceutical products, tea products and other food products. As a listed company, it is our corporate duty to promote transparency in relation to our business operations; as such, we would like to present our Environmental, Social and Governance ("ESG") Report which highlights the operational strategies that have been carried out by us during this financial year to achieve sustainability in all aspects.

We consider corporate sustainability as the key to the long-term healthy development of our Group. As a responsible and caring corporation, we value work ethics as much as we cherish the opportunities to engage in sustainable development. For instance, we recognize our obligations to contribute to environmental sustainability, support our employees and strengthen community relations. When considering sustainability, we take into account a number of short-and long-term factors, including, but not limited to, business-related challenges, accountability to stakeholders, global trend of best practices of environmental protection, relevant laws and regulations, and risk management. We believe that the key to success in the overall approach of ESG is to ensure management makes informed decisions through thorough and ongoing review and monitoring of the ESG issues with the participation of all stakeholders. Hence, we have included KPIs in our ESG Report this year in order to give our stakeholders and the public a more comprehensive and profound understanding of the effectiveness of the implemented operational strategies in pursuing environmental sustainability.

Nowadays, sustainability is not merely a concept, but an ultimate goal for all mankind. We are embracing opportunities and managing risks derived from the economy, environment and society in order to meet overarching targets. We believe that upholding the value of sustainability in our business dealings will better position in allocating resources and benefiting our stakeholders and the community.

2. ABOUT THE ESG REPORT

We are delighted to present the ESG Report (the "Report") in 2018/19. This Report herein focuses on providing an overview of the environmental and social aspects of the Group, and outlines how we seek to continually improve our operational strategy in regard to our environment and society in order to cope with the global standards of sustainability.

During the process of the preparation of this Report, the Group has conducted thorough review and evaluation of the existing Group's policies and practices. Unless otherwise stated, this Report focuses on the Group's tea business in the PRC due to its materiality towards environmental and social impact. We focuses on 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"). The Group will continue to strengthen our information collection process in order to disclose a more comprehensive set of information with regard to our sustainable operations in both the PRC and Hong Kong in our ESG Report in 2019/20 and beyond.

Environmental, Social and Governance Report

2.1 Report Scope and Boundary

The Report is prepared in accordance with the ESG Reporting Guide ("Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEX") (the "Listing Rules").

In order to comply with the disclosure obligations of "comply or explain" provisions, this Report has outlined the overall Group's performance in environmental protection, human resources, operating practice and community involvement for the financial year, from 1 April 2018 to 31 March 2019 ("Reporting Period"). HKEX's Guide is provided for cross-referencing purpose and is shown from pages 44 to 48 of the Report.

We acknowledge the importance of proper disclosure of business activities, believing it as the key to building trust with investors and shareholders. For instance, this Report will highlight the following aspects:

- Emissions, Use of Resources and Generation of Waste;
- Employment and Labour Practices;
- Operating Practices; and
- Community Investment.

This Report was approved by the board of directors (the "Board") on 26 June 2019. For details of corporate governance, please refer to the "Corporate Governance Report" on pages 10 to 20 of the Annual Report.

2.2 Information and Feedback

For details in relation to our financial performance during the financial year, please visit our website: http://www.longruntea.com or Annual Report.

Your feedback and comments are our greatest motivation to improve our ESG performance. Please send us an email to info@longfar.com.hk, if you have any queries as for the content of this Report or the Group's sustainability policies.

Environmental, Social and Governance Report

2.3 Our Stakeholders

We believe that our stakeholders play an important role in sustaining the success of our business, and we seek for opportunities to understand and engage our stakeholders. The probable points of concern of the stakeholders and the means of our communication and responses are listed below.

Stakeholders	Probable Points of Concern	Communication and Responses
HKEX	Compliance with listing rules, and timely and accurate announcements.	Meetings, training, workshops, programs, website updates, and announcements.
Government	Compliance with laws and regulations, preventing tax evasion, and social welfare.	Interaction and visits, government inspections, tax returns and other information.
Investors	Corporate governance, business strategies and performance, and investment returns.	Organizing briefing sessions and seminars, interviews, shareholders' meetings, issue of financial reports or operation reports for investors, media and analysts.
Media & Public	Corporate governance, environmental protection, and human rights.	Issue of newsletters on the Company's website.
Customers	Service quality, service delivery schedule, reasonable prices, service value, and personal data protection.	After-sales services.
Employees	Rights and benefits of employees, compensation, training and development, work hours, and working environment.	Conducting union activities, training, interviews with employees, internal memos, and employee suggestion boxes.
Community	Community environment, employment opportunities, community development, and social welfare.	Developing community activities, employee voluntary activities, and community welfare subsidies and donations.

3. PROTECTING OUR ENVIRONMENT

As a responsible enterprise, the Group is committed to protecting the surrounding environment and reducing its impact on the environment caused by its business operations.

The Group is well aware that the foundation of social prosperity is a healthy environment. As such, we have been persistent in conducting business in an environmentally sustainable manner through efficient use of resources and implementing green initiatives.

During the Reporting Period, we strictly complied with all applicable environmental laws and regulations in the PRC, including but not limited to the "Environmental Protection Law of the PRC"(中華人民共和國環境保護法), and the "Law of the PRC on Prevention and Control of Water Pollution"(中華人民共和國水污染防治法).

3.1 Emissions

The Group mainly engages in the trading of tea products. The business operations do not involve any production processes. Despite the fact that there are no direct air and greenhouse gas emissions from our business operations, they are generated through two types of our activities, including the use of motor vehicles and the consumption of electricity.

During the Reporting Period, YNLR produced 163.02 kg of Nitrogen Oxides, 0.31 kg of Sulphur Oxides, 15.62 kg of Particulate Matter and 402,593.86 kg of Carbon Dioxide. Details of the emissions are summarized as below.

		Unit			Data	
Emission Indicators	**Source**	**For the year ended 31 March 2019**	**For the year ended 31 March 2018**	**Emission Type**	**For the year ended 31 March 2019**	**For the year ended 31 March 2018**
KPI A1.1					(in g)	
Emission Data from Vehicles	Kilometres travelled	184,206 km	283,012 km	Nitrogen Oxides	163,022.31	250,465.62
				Particulate Matter	15,620.67	23,999.42
	Units of fuel consumed					
	Petrol	20,792 L	31,501 L	Sulphur Oxides	305.64	463.07
KPI A1.2						
Total Greenhouse Gas ("GHG") Emissions					(in kg)	
Scope 1: Direct Emissions or Removals from Sources						
Scope 1b – GHG Emissions from Mobile Combustion Sources	Units of fuel consumed					
	Petrol	20,792 L	31,501 L	Carbon Dioxide	56,280.38	85,267.55
Scope 2 – Energy Indirect Emissions						
	Unit of Electricity Consumed	413,904 kWh	393,120 kWh	Carbon Dioxide	346,313.48	341,070.92
Total Amount of Carbon Dioxide Produced during the Reporting Period:					402,593.86	426,338.47

There were no cases of non-compliance with laws and regulations relating to air pollution and greenhouse gas emissions during the Reporting Period.

3.2 Green Operations

It is our belief that environmental commitment is more than merely operational compliance with the relevant local laws and regulations. Therefore, apart from fulfilling legal obligations in respect of air and greenhouse gas emissions that have a significant impact on us, we have worked further to establish a sound mechanism that aims for lower emissions and stronger environmental awareness of employees.

We are mindful of our obligations to reduce air and greenhouse gas emissions from its operations. A number of measures have been implemented to achieve the reduction of emissions, such as optimizing its route plans for transportation and product delivery; encouraging the use of public transportation; and replacing unnecessary overseas business travel with video conferencing, in respect of which business travel by air is only considered when it is unavoidable in order to minimize carbon emissions.

3.3 Hazardous Waste & Non-Hazardous Waste

No hazardous waste was produced from the ordinary course of business. The major non-hazardous waste produced was waste paper, all of which had been properly recycled.

Waste paper generated during the Reporting Period is detailed below.

Non-hazardous waste indicators	Source	Unit	
KPI1.4		(in tonnes)	
		For the year ended 31 March 2019	For the year ended 31 March 2018
Total non-hazardous waste produced			
	Waste Paper	0.48040	0.65820
Non-hazardous waste produced per tonne of unit produced		(in tonnes/unit produced)	
	Waste Paper	0.00001	0.00001

There were no cases of non-compliance with laws and regulations relating to generation of non-hazardous waste during the Reporting Period.

3.4 Paperless Office

To promote a paperless office and reduce carbon emissions, we encourage the use of electronic systems to substitute paper-based office administration systems (OA System), and electronic means for information dissemination are used wherever possible. we make use of waste paper collection boxes, purchases printing paper with recycled content, and regularly evaluates paper consumption. Furthermore, YNLR also recommended the employees to set the computers and printers to duplex and economical modes as default, and use smaller fonts and line spacing for inevitable printing to lower paper consumption. A notice is also placed at the side of the printer to remind employees to use double-sided photocopying and reuse used paper.

3.5 Energy Conservation

Electricity is mainly consumed for the daily operations of offices and retail shops to support the lighting and air-conditioning systems. Electricity consumption during the Reporting Period are detailed below.

Energy Consumption	Source	Unit	
KPI2.1			
		For the year ended 31 March 2019	For the year ended 31 March 2018
Total Consumption			
	Electricity	413,904.00 kWh	393,120.00 kWh
Consumption per capita			
	Electricity	2,069.52 kWh per capita	1,604.57 kWh per capita

As part of the initiatives to reduce energy consumption of lighting system, we require lighting to be switched off when it is not in use, maximizes the use of natural light, and divides the office area into different lighting zones controlled by independent switches. YNLR has also installed motion sensors in areas that are not frequently used, and reduced unnecessary lighting fixtures in order to lower energy consumption. Moreover, we clean the light fixtures regularly and adopts energy-efficient lighting to increase the energy efficiency of the lighting system. We also allow employees to dress in casual attire in office every Friday and in hot weather so as to reduce energy consumption.

3.6 Water Usage

As the Group does not involve tea processing, water consumption is relatively low. We do not have any issue in sourcing water, and water is mainly consumed by staff in the office and retail shops. The total consumption of water during the Reporting Period is detailed below.

Water Consumption	Source	Unit	
KPI2.2			
		For the year ended 31 March 2019	For the year ended 31 March 2018
Total Consumption			
	Water	4,161.00 cubic meters	2,379.00 cubic meters
Consumption per capita			
	Water	20.81 cubic meters per capita	9.71 cubic meters per capita

3.6 Water Usage (Continued)

To minimize water consumption, water-efficient equipment is used and water pressure is set to an optimal level. Moreover, water leakage test and water meter reading check are conducted regularly to detect and address any issue related to water leakage, dripping taps or abnormal water usage in a timely manner. In addition, water-saving notices are also displayed in the toilets to remind employees to turn off the water taps after use.

Domestic sewage is filtered in septic tanks and undergoes wastewater treatment conducted by the wastewater treatment plant before the wastewater is discharged into municipal sewage pipeline network. As such, our environmental footprint can be further reduced.

3.7 Packaging Materials

There were no packaging materials produced during the course of our operations in the PRC.

4. CARING OUR EMPLOYEES

We strive to achieve long-term growth and sustainable development by placing emphasis on the interests and rights of our employees and creating a comfortable and safe working environment.

To protect the rights of our employees, the Group complies with all relevant laws and regulations that have a significant impact on us, including the "Labour Law of the PRC", "Labour Contract Law of the PRC", and "Law of the PRC on Work Safety".

During the Reporting Period, there was no incident of non-compliance in relation to the relevant labour laws and regulations, and the Group had not been subject to any claim, lawsuit, penalty or disciplinary action.

4.1 Employment and Welfare

Employees are our greatest assets, and have been the major driving force of our continual success. We strive to provide a working environment free from discrimination and harassment, and offer equal opportunities along with attractive and competitive remuneration.

We have established our internal policies in accordance with the relevant labour laws and regulations related to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

To ensure that key company policies are clearly communicated to our employees, YNLR has established a "Staff Handbook", which details the rights of our employees, such as working hours, leave entitlement and other benefits and welfare. Each employee is provided with a copy of the "Staff Handbook" when they join the Group.

During the recruitment process, job applicants who meet the job requirements are given equal interview opportunities. All applicants are assessed based on their ability, irrespective of their nationality, race, religion, disability, sexual orientation, political opinion, gender, age or family status. Through proactive enforcement of our anti-discrimination policy, we aspire to create a harmonious workplace free of bullying and belittling.

To prevent employment of child labour, newly recruited employees are required to provide a copy of identification documents for age verification. Signing employment contracts with our employees, which clearly state the job positions of the employees, is also an essential part of our employment process to prevent forced labour. If we discover any cases of child and/or forced labour, we will immediately terminate the employment concerned and investigate into the incident. Disciplinary action may be taken against any staff members who are responsible for the causes of the incident. Pursuant to the relevant laws and regulations, exit interviews are to be arranged and outstanding wages are to be settled in a timely manner upon resignation of any employees.

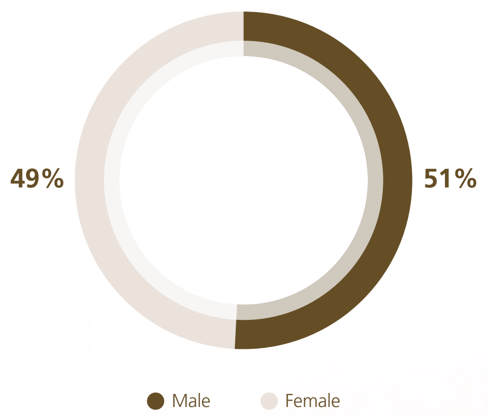
4.1 Employment and Welfare (Continued)

To ensure there is sufficient rest time for our employees, we manage the work schedules such that our staff in PRC work no more than 8 working hours per day and 40 hours per week. The aforementioned working hour arrangement is established in accordance with the requirements stipulated in the "Labour Law of the PRC". Employees who have completed their probation are entitled to all statutory holidays, leave and welfare as stipulated in the national and local laws and regulations, including but not limited to paid maternity leave, paternity leave, marriage leave and compassionate leave.

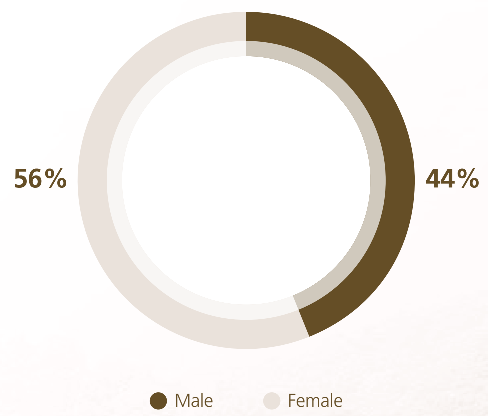
As part of our effort to retain talents, remuneration package for employees are reviewed periodically on the basis of industry practice and performance of the Group and individual employees.

As of 31 March 2019, the Group had a total of 231 employees. The breakdowns of our workforce by gender, age and employment level are as follows:

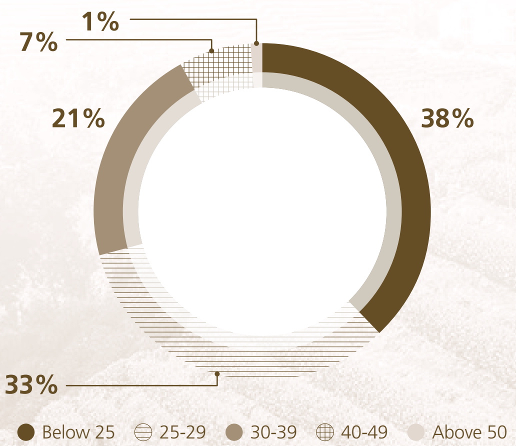
As of 31 March 2018 by Gender



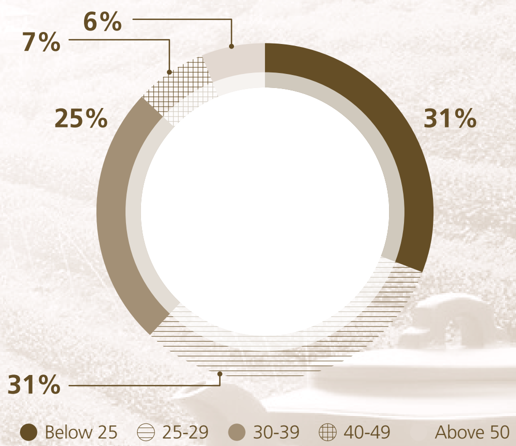
As of 31 March 2019 by Gender



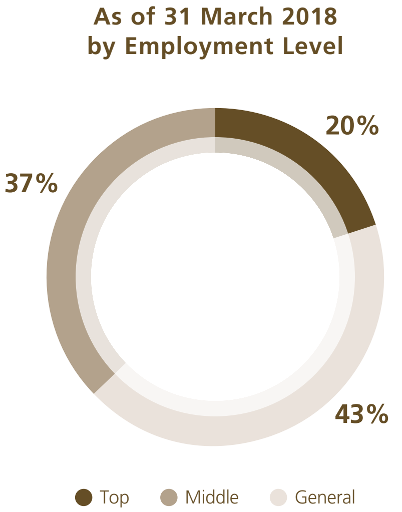
As of 31 March 2018 by Age Group

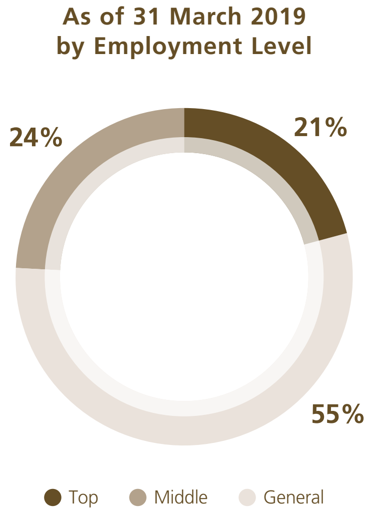


As of 31 March 2019 by Age Group



4.1 Employment and Welfare (Continued)





During the Reporting Period, 64 employees left the Group with turnover rates as follows.

Employee Turnover Rate	**For the year ended 31 March 2019**	For the year ended 31 March 2018
By Gender		
Male	**41%**	37%
Female	**59%**	63%
By Age		
< 25	**41%**	49%
25-29	**39%**	42%
30-39	**14%**	7%
40-49	**6%**	1%
> 50	**0%**	1%

4.2 Health and Safety

To maintain a healthy and safe workplace for our employees, the Group strictly abides by the local laws and regulations related to occupational health and safety that have a significant impact on us. Safety procedures for high risk projects and necessary protective equipment are available to protect employees from injuries and health risks. With a vision of creating a workplace free of accidents, we conduct equipment maintenance from time to time. Clear guideline for handling emergencies is also formulated in case of occurrence of accidents. Throughout the Reporting Period, there were no work-related fatalities or lost days due to work injury.

4.3 Training and Development

A talented workforce is of paramount importance to the continuous success of the Group and therefore, the Group invests considerably in employees' career development. Apart from on-the-job-training, in-house training is provided to our employees. We also encourage our employees to enrol in external courses in disciplines related to their work by subsidizing them with the relevant fees incurred. Appraisals are conducted regularly to review the performance of our employees. Employees with outstanding performance are given promotion opportunities.

During the Reporting Period, YNLR provided staff training in a total of 2,163 hours. The statistics related to staff training and development is detailed as follows.

Average no. of hours of training per employee	**For the year ended 31 March 2019**	For the year ended 31 March 2018
By Gender		
Male	**28.00**	21.57
Female	**28.00**	24.88
By employment category		
Entry level	**28.00**	23.70
Middle level	**28.00**	12.95
Management level	**28.00**	2.00

Percentage of employees trained	**For the year ended 31 March 2019**	For the year ended 31 March 2018
By gender		
Male	**44.3%**	53.9%
Female	**55.7%**	46.1%
By employee category		
Entry level	**82.2%**	88.3%
Middle level	**15.5%**	10.2%
Management level	**2.3%**	1.5%

5. OPERATING PRACTICES

Our business success represents our responsible and meticulous manner in every aspect of our business operations, from supply chain, product responsibility to anti-corruption, underpinned by our unwavering conviction to deliver quality products to our customers.

During the Reporting Period, the Group was not aware of any non-compliance with the relevant laws and regulations related to health and safety, advertising, labelling and privacy matters relating to the products and services provided and methods of redress.

5.1 Supply Chain Management

During the Reporting Period, the Group made purchases from 5 major suppliers in China. We work closely with our suppliers to ensure quality and to minimize the environmental impact of our products.

When selecting suppliers, the Group ensures that they are certified and able to meet the national and industrial requirements. Moreover, the selection of suppliers also involves careful consideration of product quality, product safety, location of suppliers and delivery time to minimize the social risks of the supply chain.

5.2 Quality Assurance

During the Reporting Period, we complied with relevant laws and regulations in relation to quality assurance that have a significant impact on us, including "Food Safety Law of People's Republic of China"（中華人民共和國食品安全法）and "Measures for Management of Food Licensing"（食品經營許可管理辦法）and "Product Quality Law of the People's Republic of China"（中華人民共和國產品質量法）. Our goal is to provide quality products to our customers, not only do we abide by relevant local laws and regulations in regard to product quality and safety, we also endeavour to provide safe and healthy products through the establishment of stringent quality control and examination procedures.

All products are stored under dry and well-ventilated conditions with regular checks conducted to ensure that the products are kept in a good condition. In case of any severe quality or safety issues that arise after sales, we will promptly recall the defective products or take actions to lessen the impact on the society. In the event of quality defects, customers retain the rights of returning the purchases to the Group within 7 calendar days.

During the Reporting Period, YNLR had a total of 52,947 units (2018: 44,915 units) of products were sold, out of which 118 units were subjected to recalls due to safety and health reasons, accounting for 0.2% (2018: 0.1%) of total products sold and representing a year-on-year increase of 0.1%.

5.3 Management of Advertising

To promote our products to our potential customers, we conduct marketing activities and promotional events through online platforms, social media, and exhibitions, etc. In strict compliance with the laws and regulations related to advertisement and labelling, such as the "Advertisement Law of the PRC"（中華人民共和國廣告法）, we ensure that all information and descriptions of marketing and advertising, including public sales to be legal, accurate and truthful.

5.4 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 agreements that forbid disclosure of information to other parties without express consent of the Group. Moreover, training related to privacy and cyber security are also provided to our employees to enhance their awareness of privacy.

5.5 Complaint Handling

Our well-established procedures for handling customers' complaints reflect how we value customers' feedback, 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/or via online platform. YNLR ensures that all complaints are treated in a prompt and consistent manner. Our employees, meanwhile, maintain good communication with our customers to understand their needs. Measures are taken to solve their issues, and improve our performance. During the Reporting Period, we did not receive any written complaints related to product and service quality.

5.6 Protection of Intellectual Property

During the Reporting Period, we strictly complied with laws and regulations in regard to product responsibility in Hong Kong and the PRC that have a significant impact on us, such as "Trademark Law of the PRC"(中華人民共和國商標法).

We strive to protect our intellectual property rights by prolonged use and registration of domain names and trademarks. Trademarks are registered in the PRC and other relevant jurisdictions. In addition, we constantly monitor and renew our intellectual properties upon their expiration.

5.7 Anti-corruption

The Group strictly adheres to the anti-corruption laws and regulations, such as the "Criminal Law of the PRC"(中華人民共和國刑法), and upholds its business integrity throughout the operations. 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, which is formulated with the purpose of preventing conflicts of interest, bribery and other unlawful behaviour, as well as misconduct. Whistle-blowing procedures are established for employees to report suspected corrupt practices or misconducts to senior management. Disciplinary actions, such as dismissal, may be taken against employees who breach the Group's code of conduct.

During the Reporting Period, no corruption and money laundering cases were noted or reported.

6. CONTRIBUTING TO OUR COMMUNITY

The Group supports various philanthropic initiatives. We strive to create a positive impact on the communities where we operate. Going forward, we are committed to continuing our social sustainability practices, with an ultimate aim to maximize the welfare of our community.

The Group believes that education is the foundation of community development. By supporting educational initiatives, we aspire to promote the prosperity of the local community. On 15 May 2018, we made a donation of RMB200,000 to "Yunnan Agricultural University"(雲南農業大學) in Yunnan Province, the PRC. Apart from that, we have participated in poverty alleviation activities. On 6 July 2018, we made a donation of RMB140,000 to the "People's Government"(人民政府) of Gengjia Township in Changning County, Yunnan to help the poor in reconstruction of dilapidated houses in the area.

HKEX'S GUIDE TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Part A: Environmental

ESG Aspects	Related Section	Remarks
A1. Emissions		
Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Protecting our Environment, Green Operations, Energy Conservation and Water Usage	
KPI A1.1 The types of emissions and respective emission data.	Emissions	
KPI A1.2 Greenhouse gas emission in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions	
KPI A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A	No hazardous waste is produced from our daily operations.
KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Hazardous Waste & Non-Hazardous Waste	
KPI A1.5 Description of measures to mitigate emissions and results achieved.	Green Operations and Energy Conservation	
KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Hazardous Waste & Non-Hazardous Waste and Paperless Office	

HKEX'S GUIDE TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Part A: Environmental (Continued)

ESG Aspects	Related Section	Remarks
A2. Use of Resources		
Policies on the efficient use of resources, including energy, water and other raw materials.	Paperless Office, Energy Conservation, Water Usage and Packaging Materials	
KPI A2.1 Direct and/or indirect energy consumption by type. (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Energy Conservation	
KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Water Usage	
KPI A2.3 Description of energy use efficiency initiatives and results achieved.	Energy Conservation	
KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Usage	
KPI A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging Materials	
A3. The Environmental and Natural Resources		
Policies on minimizing the issuer's significant impact on the environment and natural resources.	Green Operations, Paperless Office, Energy Conservation and Water Usage	
KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green Operations, Paperless Office, Energy Conservation and Water Usage	

HKEX'S GUIDE TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

PART B: SOCIAL

ESG Aspects	Related Section	Remarks
	B1. Employment	
Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Caring our Employees, Employment and Welfare	
KPI B1.1 Total workforce by gender, employment type, age group and geographical region.	Employment and Welfare	
KPI B1.2 Employment turnover rate by gender, age group and geographical region.	Employment and Welfare	
	B2. Health and Safety	
Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety	
KPI B2.1 Number and rate of work-related fatalities.	Health and Safety	
KPI B2.2 Lost days due to work injury.	Health and Safety	
KPI B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety	
	B3. Development and training	
Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Training and Development	
KPI B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Training and Development	
KPI B3.2 The average training hours completed per employee by gender and employee category.	Training and Development	

HKEX'S GUIDE TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

PART B: SOCIAL (Continued)

ESG Aspects	Related Section	Remarks
B4. Labour standards		
Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment and Welfare	
KPI B4.1 Description of measures to review employment practices to avoid child and forced labour.	Employment and Welfare	
KPI B4.2 Description of steps taken to eliminate such practices when discovered.	Employment and Welfare	
B5. Supply chain management		
Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	
KPI B5.1 Number of suppliers by geographical region.	Supply Chain Management	
KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management	
B6. Product responsibility		
Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and method of redress.	Operating Practices, Quality Assurance, Management on Advertising, Protection of Customer Data and Privacy	
KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Quality Assurance	
KPI B6.2 Number of products and service-related complaints received and how they are dealt with.	Complaint Handling	

HKEX'S GUIDE TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

PART B: SOCIAL (Continued)

ESG Aspects	Related Section	Remarks
KPI B6.3 Description of practices relating to observing and protecting intellectual property rights.	Protection of Intellectual Property	
KPI B6.4 Description of quality assurance process and recall procedures.	Quality Assurance	
KPI B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	Protection of Customer Data and Privacy	
B7. Anti-corruption		
Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption	
KPI B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption	
KPI B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption	
B8. Community investment		
Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure that its activities take into consideration the communities' interests.	Contributing to our Community	
KPI B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Contributing to our Community	
KPI B8.2 Resources contributed (e.g. money or time) to the focus area.	Contributing to our Community	

Independent Auditor's Report

MOORE STEPHENS

Moore Stephens CPA Limited
801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180
F +852 2375 3828

www.moorestephens.com.hk

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)

QUALIFIED 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 54 to 125, which comprise the consolidated statement of financial position as at 31 March 2019, 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.

In our opinion, except for the possible effects on the corresponding figures of the matter described in the *Basis for Qualified Opinion* section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

Our reports on the consolidated financial statements of the Group for the years ended 31 March 2017 and 2018 were disclaimed due to a limitation of scope that 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. During the year ended 31 March 2018, the Loan and the corresponding interest receivables of approximately HK$169,836,000 (equivalent to RMB143,394,000) were received by the Group and presented in the consolidated statement of cash flows under investing activities. Interest income from the Loan of approximately HK$683,000 (equivalent to RMB577,000) was recognised in the consolidated statement of profit or loss during the year ended 31 March 2018.

BASIS FOR QUALIFIED OPINION (Continued)

The directors of the Company (the "Directors") explained that the omission of recording the Loan (approved by two directors of a subsidiary who are also directors of the Company) which led to significant discrepancies of the bank balances as recorded in the accounting books and the bank statements and confirmations until May 2017 was caused by certain accounting staff of a subsidiary and internal control weakness associated with the granting, execution and recording of the Loan. These staffs were suspended from their duties in May 2017 and dismissed in September 2017. The Loan was asserted by the directors of the abovementioned subsidiary as being advanced to a borrower who is independent of the Group, any of the Directors or any of the substantial shareholders of the Company.

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 found to be necessary may have significant effects on the Group's consolidated financial position as at 31 March 2017 and of its consolidated financial performance and its consolidated cash flows for the year ended 31 March 2017.

Also, the closing balances as at 31 March 2017 of the assets and liabilities of the Group, including that of the Loan, are brought forward as the opening balances as at 1 April 2017 and hence entered into the determination of the consolidated financial performance and consolidated cash flows of the Group for the year ended 31 March 2018. Accordingly, any adjustments found to be necessary to the closing balances of the assets and liabilities as at 31 March 2017 in respect of the Loan may have significant effects on 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 of the Group for the year ended 31 March 2018 presented as comparative figures in these consolidated financial statements and hence on the comparability of the current year's figures and the comparative figures. The matters disclosed above no longer have possible effects on the figures presented in the consolidated statement of financial position of the Group as at 31 March 2018.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information in the annual report for the year ended 31 March 2019 other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON (Continued)

If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we are unable to conclude whether or not the other information is materially misstated in respect of the comparative figures for the year ended 31 March 2019.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements as at and for the year ended 31 March 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	**How our audit addressed the key audit matter**
Expected credit loss on trade receivables (please refer to note 15 to the consolidated financial statements)	
As at 31 March 2019, there were trade receivables (net of expected credit loss allowance) of approximately HK$52,199,000. The Group had recognised expected credit loss allowance resulting in a net impact charged to profit or loss of approximately HK$2,795,000 during the year. The adoption of HKFRS 9 has changed the Group's accounting policies for assessing and estimating credit loss allowances for the financial assets measured at amortised cost at subsequent reporting dates as compared to the incurred loss approach under HKAS 39. The measurement of expected credit loss ("ECL") requires the application of significant judgement and increased complexity. We have identified management's impairment assessments on the Group's trade receivables as a key audit matter because their carrying amounts are significant and the assessments required significant management estimations and judgements including forward-looking information in the provision for ECL on trade receivables.	Our key procedures to address the matter included: – Obtained the list and ageing analysis of the trade receivables as at 1 April 2018 and 31 March 2019 and discussing with the management of the Group about their evaluation of the background and financial capability of the trade receivables and their credit assessment that each of the amount was recoverable; – Evaluated the appropriateness of methodologies and the corresponding key inputs and assumptions on determination of the ECL on trade receivables; – Challenged management of the Company about the appropriateness and reasonableness of the management's bases of estimating the ECL; – Challenged management of the Company about the classification of trade receivables in the calculation of the ECL; and – Checked subsequent settlement of the individual trade receivables, if any.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors 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 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 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 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 in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

– Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Moore Stephens CPA Limited
Certified Public Accountants

Hung, Wan Fong Joanne
Practising Certificate Number: P05419

Hong Kong, 26 June 2019

Consolidated Statement of Profit or Loss

For the year ended 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	4	**94,820**	81,670
Cost of sales		**(62,651)**	(48,158)
Gross profit		**32,169**	33,512
Other income and gains	4	**8,282**	3,601
Interest income from loan receivable	17	**–**	683
Gain on disposal of items of property, plant and equipment, net		**–**	58
Provision for expected credit loss allowance/ impairment loss on trade receivables	15	**(4,910)**	(2,819)
Reversal of expected credit loss allowance/ impairment loss on trade receivables	15	**2,115**	2,730
Reversal of impairment loss on other receivables	16	**–**	68
Selling and distribution expenses		**(31,832)**	(30,429)
Administrative expenses		**(32,441)**	(30,946)
Other expenses		**–**	(20)
Finance costs	6	**(9,589)**	(10,325)
Loss before tax	5	**(36,206)**	(33,887)
Income tax expense	9	**(714)**	(15)
Loss for the year		**(36,920)**	(33,902)
Loss attributable to owners of the Company		**(36,920)**	(33,902)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	11		
Basic and diluted		**HK(2.54) cents**	HK(2.34) cents

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	2019 **HK$'000**	2018 HK$'000
LOSS FOR THE YEAR	**(36,920)**	(33,902)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(8,366)**	13,836
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF INCOME TAX	**(8,366)**	13,836
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(45,286)**	(20,066)
Total comprehensive loss attributable to owners of the Company	**(45,286)**	(20,066)

Consolidated Statement of Financial Position

At 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**4,860**	2,401
Available-for-sale financial assets	13	**–**	7,500
Total non-current assets		**4,860**	9,901
CURRENT ASSETS			
Inventories	14	**2,353**	2,119
Trade receivables	15	**52,199**	27,010
Prepayments, deposits and other receivables	16	**10,747**	8,967
Time deposits with original maturities of more than three months	18	**22,225**	96,313
Cash and bank balances	18	**88,407**	153,336
Total current assets		**175,931**	287,745
CURRENT LIABILITIES			
Trade payables	19	**1,120**	1,661
Other payables, accruals, receipts in advance and deposits from customers	20	**34,526**	48,435
Contract liabilities	20	**4,136**	–
Finance leases payables	21	**118**	267
Convertible bonds	22	**–**	58,767
Income tax payables		**712**	2
Due to related companies	30(b)(i)	**188**	168
Due to directors of the Company	30(b)(ii)	**1,776**	3,750
Total current liabilities		**42,576**	113,050
NET CURRENT ASSETS		**133,355**	174,695
TOTAL ASSETS LESS CURRENT LIABILITIES		**138,215**	184,596

Consolidated Statement of Financial Position (Continued)

At 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Finance leases payables	*21*	**82**	200
Deferred income		**–**	186
Contract liabilities	*20*	**49**	–
Total non-current liabilities		**131**	386
Net assets		**138,084**	184,210
EQUITY			
Equity attributable to owners of the Company			
Share capital	*24*	**72,576**	72,576
Reserves	*26*	**65,508**	111,634
Total equity		**138,084**	184,210

The consolidated financial statements on pages 54 to 125 were approved and authorised for issue by the board of directors on 26 June 2019 and are signed on its behalf by:

Yeh Shu Ping
Director

Jiao Shaoliang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

	Issued share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 *(note 26a)*	Employee share-based compensation reserve HK$'000 *(note 26b)*	Convertible bonds equity reserve HK$'000 *(note 22)*	Exchange fluctuation reserve HK$'000 *(note 26c)*	Accumulated losses HK$'000	Total equity HK$'000
At 1 April 2017	72,576	253,001	300	6,129	12,549	(201)	(140,078)	204,276
Loss for the year	–	–	–	–	–	–	(33,902)	(33,902)
Other comprehensive income for the year: Exchange differences on translation of foreign operations	–	–	–	–	–	13,836	–	13,836
Total comprehensive loss for the year	–	–	–	–	–	13,836	(33,902)	(20,066)
At 31 March 2018	72,576	253,001*	300*	6,129*	12,549*	13,635*	(173,980)*	184,210
Transitional adjustments on initial application of Hong Kong Financial Reporting Standard ("HKFRS") 9	–	–	–	–	–	(43)	(797)	(840)
At 1 April 2018	72,576	253,001	300	6,129	12,549	13,592	(174,777)	183,370
Loss for the year	–	–	–	–	–	–	(36,920)	(36,920)
Other comprehensive loss for the year: Exchange differences on translation of foreign operations	–	–	–	–	–	(8,366)	–	(8,366)
Total comprehensive loss for the year	–	–	–	–	–	(8,366)	(36,920)	(45,286)
Redemption of convertible bond	–	–	–	–	(12,549)	–	12,549	–
At 31 March 2019	**72,576**	**253,001***	**300***	**6,129***	**–***	**5,226***	**(199,148)***	**138,084**

* These reserve accounts comprise the consolidated reserves of approximately HK$65,508,000 (2018: HK$111,634,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(36,206)**	(33,887)
Adjustments for:			
Finance costs	*6*	**9,589**	10,325
Interest income from bank deposits	*4*	**(1,677)**	(1,299)
Interest income from loan receivable	*17*	**–**	(683)
Depreciation	*5,12*	**1,977**	1,045
Gain on disposal of financial assets at fair value through profit or loss	*4,13*	**(5,391)**	–
Gain on disposal of items of property, plant and equipment, net		**–**	(58)
Provision for expected credit loss allowance/ impairment losses on trade receivables	*5,15*	**4,910**	2,819
Reversal of expected credit loss allowance/ impairment losses on trade receivables	*5,15*	**(2,115)**	(2,730)
Reversal of impairment losses on other receivables	*5,16*	**–**	(68)
Provision for slow-moving and obsolete inventories	*5,14*	**4**	10
Operating cash flows before movements in working capital		**(28,909)**	(24,526)
(Increase)/decrease in inventories		**(345)**	2,080
(Increase)/decrease in trade receivables		**(30,291)**	826
(Increase) in prepayments, deposits and other receivables		**(2,286)**	(1,526)
Increase/(decrease) in amounts due to related companies		**30**	(1,320)
(Decrease) in trade payables		**(458)**	(21,876)
Increase/(decrease) in other payables, accruals, receipts in advance and deposits from customers		**7,118**	(11,663)
(Decrease) in contract liabilities		**(14,709)**	–
(Decrease) in deferred income		**–**	(1,031)
Cash used in operations		**(69,850)**	(59,036)
Income tax paid		**(4)**	(13)
Net cash used in operating activities		**(69,854)**	(59,049)
INVESTING ACTIVITIES			
Interest received	*4*	**1,677**	1,299
Repayment of advance of a loan receivable		**–**	169,836
Purchases of items of property, plant and equipment	*12*	**(4,533)**	(722)
Proceeds from disposal of items of property, plant and equipment		**–**	66
Proceeds from disposal/(purchases) of financial assets at fair value through profit or loss		**12,891**	(7,500)
Withdrawal/(placement) of short term time deposits with original maturities of more than three months		**74,088**	(65,720)
Net cash generated from investing activities		**84,123**	97,259

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
FINANCING ACTIVITIES			
Redemption of convertible bonds	*27*	**(64,800)**	–
Payment of interests on convertible bonds	*27*	**(3,544)**	(3,564)
Repayments of finance leases payables	*27*	**(267)**	(409)
(Repayments to)/advances from directors of the Company	*27*	**(1,974)**	243
Payment of interests on finance leases	*27*	**(12)**	(26)
Net cash used in financing activities		**(70,597)**	(3,756)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(56,328)**	34,454
Cash and cash equivalents at beginning of year		**153,336**	111,439
Effect of foreign exchange rate changes, net		**(8,601)**	7,443
CASH AND CASH EQUIVALENTS AT END OF YEAR		**88,407**	153,336
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*18*	**88,407**	153,336

1. CORPORATE AND GROUP INFORMATION

The Company is a public 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 referred to as 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 subsidiaries are as follows as at 31 March 2019 and 2018:

Name of subsidiaries	Place of incorporation/ registration and operations	Issued ordinary share/ registered capital	Proportion of ownership interest held by the Company 2019	2018	Principal activities
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands	United States Dollar ("US$") 200	**100**	100	Investment holding
Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK") *(Note 1)*	Hong Kong	Ordinary shares HK$10 and non-voting deferred shares Hong Kong dollars ("HK$") 100,000	**100**	100	Trading of pharmaceutical products
Long Far Investment (Hong Kong) Limited	Hong Kong	HK$1	**100**	100	Dormant
Long Far Pharmaceutical (Macau) Limited *(Note 2)*	Macau	MOP25,000	**100**	100	Dormant
Winlead Investment Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Long Far Health Products Limited	Hong Kong	HK$2	**100**	100	Trading of health products
Longrun Tea Wealth Creation Company Limited ("Longrun Tea Wealth")	British Virgin Islands	US$1	**100**	100	Investment holding
Longrun Tea Trading Company Limited	Hong Kong	HK$1	**100**	100	Trading of tea products
雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited) ("YNLR") *(Notes 3 and 4)*	The People's Republic of China (the "PRC" or "Mainland China")/Mainland China	HK$47,000,000	**100**	100	Trading of tea products
Longrun Tea Online Shopping Company Limited	Hong Kong	HK$1	**100**	100	Trading of tea products
雲南有你茶餐有限公司 (Yunnan Yunitea Company Limited) *(Notes 3 and 4)*	The PRC/Mainland China	Renminbi ("RMB") 8,000,000	**100**	100	Operation of tea shop
元陽縣龍潤茶業有限公司 (Yuanyang Xian Longrun Tea Trading Company Limited) *(Notes 3 and 4)*	The PRC/Mainland China	RMB6,000,000	**100**	100	Dormant

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries of the Company (Continued)

Notes:

1) 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.

2) De-registered on 10 April 2019.

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

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

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

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 provisions of 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 except for financial assets at fair value through profit or loss ("FVTPL") that are measured at fair values on initial recognition and at subsequent period end dates. These consolidated financial statements are presented in HK$, which is also the Company's functional currency, and all values are rounded to the nearest thousand except when otherwise indicated. Certain comparative figures have been reclassified in order to conform with current year's presentation.

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 2019 are consistent with those adopted in the consolidated financial statements for the year ended 31 March 2018, except for the adoption of the new and revised HKFRSs as explained below. The Group has not applied any new standard that is not yet mandatorily effective for the current accounting period (note 36).

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

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

(a) Adoption of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue Contracts with customers
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC) – Interpretation 22	Foreign Currency Transactions and Advance Consideration

The adoption of the above new and revised standards has had no significant effect on the consolidated financial statements of the Group except for the adoption of HKFRS 9 and HKFRS 15 as discussed below.

(i) HKFRS 9 Financial Instruments

(a) Key changes in accounting policies resulting from application of HKFRS 9

(i) Classification and measurement of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVTOCI") and at FVTPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale ("AFS") financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in note (2)(a)(i)(b). The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities.

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

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

(i) HKFRS 9 Financial Instruments (Continued)

(a) Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

(ii) Expected credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the incurred loss accounting model in HKAS 39.

The Group apply the new ECL model to financial assets measured at amortised cost (including time deposits with original maturities of more than three months, cash and bank balances, trade receivables and deposits and other receivables).

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expect to receive). In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions. ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9, which permits the use of the lifetime ECLs for all trade receivables. The ECLs on these financial assets are assessed collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics. Future cash flows of each group receivables are estimated on the basis of historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forward-looking economic conditions.

For all other instruments, the Group measures the loss allowance equal to 12-month ECLs, unless when there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount for all financial instruments is recognised in profit or loss.

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

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

(i) HKFRS 9 Financial Instruments (Continued)

(a) Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

(ii) Expected credit losses (Continued)

As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed below.

(b) Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018.

	Notes	AFS financial assets HK$'000	Financial assets at FVTPL HK$'000	Trade receivables HK$'000	Accumulated losses HK$'000	Exchange fluctuation reserve HK$'000
Closing balances at 31 March 2018 – HKAS 39		7,500	–	27,010	173,980	(13,635)
Effects arising from initial application of HKFRS 9:						
Reclassification						
From AFS financial assets	*(i)*	(7,500)	7,500	–	–	–
Re-measurement						
Impairment under ECL model	*(ii)*	–	–	(840)	797	43
Opening balances at 1 April 2018 – HKFRS 9		–	7,500	26,170	174,777	(13,592)

Notes: (i) AFS financial assets

At the date of initial application of HKFRS 9, the Group's equity investments with carrying amount of HK$7,500,000 were reclassified from AFS financial assets to financial assets at FVTPL. No fair value adjustment was recognised as at 1 April 2018 as the equity investments were previously carried at fair value. Since the Group did not have accumulated asset revaluation reserve relating to those equity investments as at 1 April 2018, no transfer between asset revaluation reserve and accumulated losses is required upon initial application of HKFRS 9.

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

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

(i) HKFRS 9 Financial Instruments (Continued)

(b) Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes: (ii) Impairment under ECL model

The application of the ECL model of HKFRS 9 resulted in earlier provision of credit losses which are not yet incurred in relation to the Group's trade receivables. Such additional impairment recognised under ECL model increased the ECL allowances by approximately HK$840,000 as at 1 April 2018. As a result, as at 1 April 2018, corresponding adjustments are recognised to increase the opening accumulated losses by approximately HK$797,000 and to reduce exchange fluctuation reserve by approximately HK$43,000.

The following table reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) as at 31 March 2018 to the ECL allowance measured in accordance with HKFRS 9 as at 1 April 2018:

	Impairment allowance under HKAS 39	**Effect on adoption of HKFRS 9**	**ECL allowance under HKFRS 9**
	HK$'000	HK$'000	HK$'000
Trade receivables	23,084	840	23,924

The Group has applied HKFRS 9 in accordance with the transitional provisions set out in HKFRS 9, which was adopted retrospectively without restating comparative information. The new classification and the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 March 2018, but are recognised as adjustment to the opening accumulated losses as at 1 April 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

(ii) HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current period. HKFRS 15 superseded HKAS 18 Revenue ("HKAS 18"), HKAS 11 Construction Contracts ("HKAS 11") and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

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

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

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

(a) Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs;
- or the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

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

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

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

(a) Key changes in accounting policies resulting from application of HKFRS 15 (Continued)
A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(b) Summary of effects arising from initial application of HKFRS 15
The adoption of HKFRS 15 does not have material impact on the Group's accumulated losses as at 1 April 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position as at 1 April 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as at 31 March 2018	**Reclassification**	**Carrying amounts under HKFRS 15 as at 1 April 2018**
	HK$'000	HK$'000 *(Note)*	HK$'000
Current liabilities			
Other payables, accruals, receipts in advance and deposits from customers	48,435	(18,706)	29,729
Contract liabilities	–	18,706	18,706
Non-current liabilities			
Deferred income	186	(186)	–
Contract liabilities	–	186	186

Note: At the date of initial application of HKFRS 15, other payables, accruals, receipts in advance and deposits from customers as at 1 April 2018 included receipts in advance from customers for sales of goods and deferred franchise income of approximately HK$17,603,000 and HK$1,103,000 respectively. The aggregate balance of approximately HK$18,706,000 was reclassified to current contract liabilities upon application of HKFRS 15.

Non-current deferred income as at 1 April 2018 represented deferred franchise income for the period over 1 year of approximately HK$186,000. This balance was reclassified to non-current contract liabilities upon application of HKFRS 15.

Except as described above, the application of other amendments to HKFRSs in the current year has had no material effect on the amounts reported and/or disclosures set out in the consolidated financial statements.

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

(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 uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainties 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.

Provision of ECL for trade receivables
The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on historical loss as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL on the Group's trade receivables are disclosed in note 33.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2019. 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:–

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- 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.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any investment retained and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The Group's share of components previously recognised in other comprehensive income is reclassified to the consolidated income statement 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

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 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.

(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.

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

(g) Leases (Continued)

(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.

(h) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date/settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 April 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

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

(h) Financial instruments (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 on 1 April 2018)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

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

(h) Financial instruments (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 on 1 April 2018) (Continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss.

Impairment of financial assets (upon application of HKFRS 9 on 1 April 2018)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

(h) Financial instruments (Continued)

Impairment of financial assets (upon application of HKFRS 9 on 1 April 2018) (Continued)

(i) Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers that default has occurred when a financial asset aged more than 365 days.

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

(h) Financial instruments (Continued)

Impairment of financial assets (upon application of HKFRS 9 on 1 April 2018) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

(h) Financial instruments (Continued)

Impairment of financial assets (upon application of HKFRS 9 on 1 April 2018) (Continued)

(v) Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises ECL in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account.

(vi) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected, on initial recognition of the investment or as at the date of initial application of HKFRS 9, to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

Initial recognition and measurement (before application of HKFRS 9 on 1 April 2018)

(i) Initial recognition and measurement

The Group's financial assets are classified into loans and receivables and AFS financial asset, which are recognised initially at fair value, plus transaction costs that are directly attributable to the acquisition of the financial assets.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

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

(h) Financial instruments (Continued)

Initial recognition and measurement (before application of HKFRS 9 on 1 April 2018) (Continued)

(ii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

(iii) 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 (including trade receivables, deposits and other receivables, loan receivable, time deposits with original maturities of more than three months and cash and bank balances) are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

AFS financial assets

AFS financial assets are non-derivative that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of assets revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the assets revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

(h) Financial instruments (Continued)

Initial recognition and measurement (before application of HKFRS 9 on 1 April 2018) (Continued)

(iv) 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.

(v) 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.

For AFS financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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

(h) Financial instruments (Continued)

Initial recognition and measurement (before application of HKFRS 9 on 1 April 2018) (Continued)

(v) Impairment of financial assets (Continued)

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period ranging 30-90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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)

(i) Financial liabilities and equity instruments

(i) 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, finance lease payables and liability component of convertible bonds. They are subsequently measured at amortised cost, using the effective interest method.

(ii) 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.

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 or expiration of the conversion option.

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

(i) Financial liabilities and equity instruments (Continued)

(ii) Subsequent measurement (Continued)

Convertible bonds (Continued)

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.

(iii) 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.

(iv) 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.

(v) 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.

(j) 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.

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

(k) 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.

(l) 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.

(m) Income tax

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

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

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

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

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

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

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

(m) Income tax (Continued)

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

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

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

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

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

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

(n) 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.

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

(o) Revenue recognition

Revenue from contracts with customers (upon application of HKFRS 15 on 1 April 2018)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

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

(o) Revenue recognition (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 on 1 April 2018) (Continued)

The Group recognises revenue from the following major sources:

(i) Sales of goods
Customers obtain control of the tea products or pharmaceutical products when the goods are delivered to and have been accepted by the customers. Revenue is thus recognised upon at the point in time when control of the tea products or pharmaceutical products is transferred to the customers. There is generally only one performance obligation.

(ii) Rental income
Rental income is recognised on a time proportion basis over the lease terms.

(iii) Franchise income
The Group licenses franchise rights to its franchisee in specific period. Franchise income is recognised over time when its franchisee have rights to assess the its franchise rights during the specific period because all of the following criteria are met:

(a) its franchisee reasonably expects, that the Group will undertake activities that significantly affect the Group's brand to which its franchisee has rights;

(b) the rights granted by the franchise directly expose the customer to any positive or negative effects of the Group's activities; and

(c) those activities do not result in the transfer of a good.

Revenue recognition (before application of HKFRS 15 on 1 April 2018)

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.

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

(p) 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.

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.

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 loss per share.

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

(q) 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.

(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.

(r) Borrowing costs

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

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

(s) Foreign currencies

These consolidated financial statements are presented in HK$, 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).

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.

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into HK$ 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 HK$ at the weighted average exchange rates for the year.

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

(t) 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 "Distribution of pharmaceutical products" segment engages in the trading and distribution of pharmaceutical products; and

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

The directors of the Company monitor 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, which represents the loss from each segment without allocation of bank interest income, interest income from loan receivable, finance costs, gain on disposal of financial assets at FVTPL, gain on disposal of items of property, plant and equipment, exchange gain, as well as head office and corporate expenses.

Segment assets exclude AFS financial assets, time deposits with original maturities of more than three months, cash and bank balances 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, income tax payables 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 and trading of pharmaceutical products HK$'000	Distribution and trading of tea and other food products HK$'000	Total HK$'000
Year ended 31 March 2019			
Segment revenue:			
Sales to external customers	3,873	90,947	94,820
Other income	–	1,214	1,214
	3,873	92,161	96,034
Segment results	(7,904)	(11,630)	(19,534)
Reconciliation:			
Bank interest income			1,677
Gain on disposal of financial assets at FVTPL			5,391
Corporate and other unallocated expenses			(14,151)
Finance costs			(9,589)
Loss before tax			(36,206)
As at 31 March 2019			
Segment assets	2,350	67,518	69,868
Reconciliation:			
Time deposits with original maturities of more than three months			22,225
Cash and bank balances			88,407
Corporate and other unallocated assets			291
Total assets			180,791
Segment liabilities	1,853	28,540	30,393
Reconciliation:			
Finance leases payables			200
Income tax payables			712
Corporate and other unallocated liabilities			11,402
Total liabilities			42,707
Year ended 31 March 2019			
Other segment information:			
Provision for obsolete inventories recognised in the consolidated statement of profit or loss	4	–	4
Provision for expected credit loss allowance on trade receivables recognised in the consolidated statement of profit or loss	–	4,910	4,910
Reversal of expected credit loss allowance on trade receivables recognised in the consolidated statement of profit or loss	–	(2,115)	(2,115)
Depreciation	489	1,488	1,977
Capital expenditure*	38	4,495	4,533

3. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Distribution and trading of pharmaceutical products HK$'000	Distribution and trading of tea and other food products HK$'000	Total HK$'000
Year ended 31 March 2018			
Segment revenue:			
Sales to external customers	4,642	77,028	81,670
Other income	102	2,200	2,302
	4,744	79,228	83,972
Segment results	(6,838)	(4,263)	(11,101)
Reconciliation:			
Bank interest income			1,299
Interest income from loan receivable			683
Gain on disposal of items of property, plant and equipment, net			58
Corporate and other unallocated expenses			(14,501)
Finance costs			(10,325)
Loss before tax			(33,887)
As at 31 March 2018			
Segment assets	3,060	37,211	40,271
Reconciliation:			
AFS financial assets			7,500
Time deposits with original maturities of more than three months			96,313
Cash and bank balances			153,336
Corporate and other unallocated assets			226
Total assets			297,646
Segment liabilities	1,519	38,797	40,316
Reconciliation:			
Convertible bonds			58,767
Finance leases payables			467
Income tax payables			2
Corporate and other unallocated liabilities			13,884
Total liabilities			113,436

3. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Distribution and trading of pharmaceutical products HK$'000	Distribution and trading of tea and other food products HK$'000	Total HK$'000
Year ended 31 March 2018			
Other segment information:			
Provision for obsolete inventories recognised in the consolidated statement of profit or loss	10	–	10
Impairment losses recognised on trade receivables in the consolidated statement of profit or loss	–	2,819	2,819
Impairment losses reversed on trade receivables in the consolidated statement of profit or loss	–	(2,730)	(2,730)
Impairment losses reversed on other receivables in the consolidated statement of profit or loss	–	(68)	(68)
Depreciation	544	501	1,045
Capital expenditure*	239	483	722

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

(b) Geographical information

(i) Revenue from external customers:

	2019 HK$'000	2018 HK$'000
The PRC, excluding Hong Kong	**86,682**	72,154
Hong Kong	**3,874**	4,642
Elsewhere in Asia	**4,072**	1,798
United States of America	**192**	3,076
	94,820	81,670

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

3. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

(ii) Non-current assets:

	2019 HK$'000	2018 HK$'000
The PRC, excluding Hong Kong	**4,622**	1,705
Hong Kong	**238**	696
	4,860	2,401

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

(c) Information about major customers

Revenue of approximately HK$31,268,000 for the year ended 31 March 2019 was derived from sales to one major customer. This customer contributed 10% or more sales to the Group's revenue.

None of the customer contributed 10% or more sales to the Group's revenue for the year ended 31 March 2018.

4. REVENUE AND OTHER INCOME AND GAINS

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

An analysis of revenue and other income and gains is as follows:

	Note	**2019 HK$'000**	2018 HK$'000
Revenue from contract with customers within the scope of HKFRS 15			
Sale of goods, recognised at point in time		**94,820**	81,670
Other income within the scope of HKFRS 15			
Franchise income, recognised over time		**927**	1,583
Other income and gains from other sources			
Bank interest income		**1,677**	1,299
Subsidy income^		**–**	406
Rental income		**–**	144
Gain on disposal of financial assets at FVTPL	*13*	**5,391**	–
Others		**287**	169
		7,355	2,018
Total other income and gains		**8,282**	3,601

^ Various one-off government subsidies were provided regarding the expenditures incurred by the Group's subsidiaries regarding as "high and new technology enterprises" in Yunnan province, the PRC which had been already expensed in profit or loss. There were no unfulfilled conditions or contingencies related to these subsidies.

5. LOSS BEFORE TAX

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

	Notes	**2019 HK$'000**	2018 HK$'000
Cost of inventories recognised as an expense		**61,044**	46,496
Depreciation	*12*	**1,977**	1,045
Minimum lease payments under operating leases of offices and shops premises		**8,482**	8,305
Auditors' remuneration			
– Audit services		**880**	930
– Non-audit services		**200**	338
Employee benefits expense (excluding directors' remuneration in note 7):			
Salaries, allowances and benefits in kind		**23,368**	22,420
Pension scheme contributions			
– Provision for current year		**3,322**	3,090
– Over-provision in prior year		**(3,123)**	(900)
		23,567	24,610
Provision for slow-moving and obsolete inventories*	*14*	**4**	10
Provision for expected credit loss allowance/ impairment loss on trade receivables	*15*	**4,910**	2,819
Reversal of expected credit loss allowance/ impairment loss on trade receivables	*15*	**(2,115)**	(2,730)
Reversal of impairment loss on other receivables	*16*	**–**	(68)

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

6. FINANCE COSTS

	Notes	**2019 HK$'000**	2018 HK$'000
Interest on finance leases	*27*	**12**	26
Effective interest expense on convertible bonds	*22 & 27*	**9,577**	10,299
		9,589	10,325

7. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

Directors' and chief executive officer's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

	2019 HK$'000	2018 HK$'000
Fees:		
Executive directors	–	10
Independent non-executive directors	**561**	480
	561	490
Other emoluments:		
Salaries, allowances and benefits in kind	**5,760**	5,754
Pension scheme contributions	**54**	54
	5,814	5,808
	6,375	6,298

(a) Independent non-executive directors

	Director fee HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Pension scheme contributions** HK$'000	**Total remuneration** HK$'000
Year ended 31 March 2019				
Mr. Guo Guoqing	**138**	**–**	**–**	**138**
Mr. Lam Siu Hung	**147**	**–**	**–**	**147**
Mr. Kwok Hok Lun	**147**	**–**	**–**	**147**
Dr. Liu Zhonghua	**129**	**–**	**–**	**129**
	561	**–**	**–**	**561**
Year ended 31 March 2018				
Mr. Guo Guoqing	120	–	–	120
Mr. Lam Siu Hung	120	–	–	120
Mr. Kwok Hok Lun	120	–	–	120
Dr. Liu Zhonghua	120	–	–	120
	480	–	–	480

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

(b) Executive directors

	Director fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 March 2019				
Dr. Chiu Ka Leung	**–**	**2,340**	**18**	**2,358**
Ms. Yeh Shu Ping*	**–**	**1,950**	**–**	**1,950**
Mr. Jiao Shaoliang	**–**	**624**	**18**	**642**
Dr. He William (also known as Lu Pingguo)	**–**	**846**	**18**	**864**
	–	**5,760**	**54**	**5,814**
Year ended 31 March 2018				
Dr. Chiu Ka Leung	10	2,340	18	2,368
Ms. Yeh Shu Ping*	–	1,950	–	1,950
Mr. Jiao Shaoliang	–	624	18	642
Dr. He William (also known as Lu Pingguo)	–	840	18	858
	10	5,754	54	5,818

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

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any remuneration during the year (2018: 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 two (2018: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries, allowances and benefits in kind	**4,067**	3,966
Pension scheme contributions	**54**	54
	4,121	4,020

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

	Number of employees **2019**	2018
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	1
	3	3

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at 8.25% for the first HK$2 million of profits of qualifying corporation and at 16.5% for the profit above HK$2 million for the year ended 31 March 2019. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 March 2018. 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 periods. 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.

	2019 **HK$'000**	2018 HK$'000
Current – Hong Kong		
Charge for the year	**710**	–
Under-provision in prior year	**4**	–
	714	–
Current – PRC Enterprise Income Tax ("EIT")		
Charge for the year	**–**	15
Total income tax expense for the year	**714**	15

9. INCOME TAX EXPENSE (Continued)

A reconciliation of the income tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2019 **HK$'000**	2018 HK$'000
Loss before tax	**(36,206)**	(33,887)
Tax at the statutory or applicable tax rate	**(7,093)**	(5,854)
Income tax at preferential tax rate	**–**	(17)
Deductible temporary differences not recognised	**26**	27
Income not subject to tax	**(222)**	(800)
Expenses not deductible for tax	**3,923**	5,840
Utilisation of tax losses previously not recognised	**–**	(605)
Tax losses not recognised	**4,076**	1,436
Under-provision in prior year	**4**	–
Others	**–**	(12)
Tax at the Group's effective rate	**714**	15

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

YNLR, a subsidiary of the Company in the PRC, was qualified as High and New Technology Enterprise which was 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. Following the qualification as High and New Technology Enterprise expired on 30 July 2018, YNLR did not enjoy the above tax benefit.

10. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2019 (2018: Nil).

11. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of approximately HK$36,920,000 (2018: HK$33,902,000), and the weighted average number of ordinary shares of approximately 1,451,520,000 (2018: 1,451,520,000) in issue during the year.

For year ended 31 March 2019, the computation of diluted loss per share does not assume the Company's exercise of outstanding share options since their assumed exercises would result in a decrease in loss per share.

For year ended 31 March 2018, the computation of diluted loss per share does 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.

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 2019						
At 1 April 2018:						
Cost	2,610	1,851	728	1,101	2,351	8,641
Accumulated depreciation and impairment	(2,045)	(1,041)	(687)	(1,101)	(1,366)	(6,240)
Net carrying amount	565	810	41	–	985	2,401
At 1 April 2018, net of accumulated depreciation and impairment	565	810	41	–	985	2,401
Additions	–	19	38	–	4,476	4,533
Depreciation provided during the year	(189)	(249)	(17)	–	(1,522)	(1,977)
Exchange realignment	(36)	(51)	–	–	(10)	(97)
At 31 March 2019, net of accumulated depreciation and impairment	340	529	62	–	3,929	4,860
At 31 March 2019:						
Cost	2,546	1,787	767	1,101	6,809	13,010
Accumulated depreciation and impairment	(2,206)	(1,258)	(705)	(1,101)	(2,880)	(8,150)
Net carrying amount	340	529	62	–	3,929	4,860

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 2018						
At 1 April 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
At 1 April 2017, net of accumulated depreciation and impairment	693	692	35	–	1,146	2,566
Additions	–	290	26	–	406	722
Disposals	–	–	(8)	–	–	(8)
Depreciation provided during the year	(192)	(247)	(12)	–	(594)	(1,045)
Exchange realignment	64	75	–	–	27	166
At 31 March 2018, net of accumulated depreciation and impairment	565	810	41	–	985	2,401
At 31 March 2018:						
Cost	2,610	1,851	728	1,101	2,351	8,641
Accumulated depreciation and impairment loss	(2,045)	(1,041)	(687)	(1,101)	(1,366)	(6,240)
Net carrying amount	565	810	41	–	985	2,401

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 2019 amounted to approximately HK$63,000 (2018: HK$472,000).

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS financial assets as at 31 March 2018 represented investments in equity securities listed on The Stock Exchange, which were measured at fair value and the fair value measurement was categorised as Level 1 under fair value measurement category under HKFRS 13. Upon the adoption of HKFRS 9 on 1 April 2018, all AFS financial assets were reclassified as financial assets at FVTPL. All financial assets at FVTPL were sold during the year and resulted in gain on disposal of financial assets at FVTPL of approximately HK$5,391,000 (2018: Nil) (note 4).

14. INVENTORIES

	2019 HK$'000	2018 HK$'000
Trading goods	**1,424**	1,689
Finished goods	**328**	175
Work in progress	**55**	65
Raw materials	**310**	68
Packaging materials	**236**	122
	2,353	2,119

During the year ended 31 March 2019, the amount of write down of inventories to their net realisable value of approximately HK$4,000 (2018: HK$10,000), which is recognised in cost of sales in the consolidated statement of profit or loss.

15. TRADE RECEIVABLES

	At 31 March 2019 HK$'000	At 1 April 2018 HK$'000 (HKFRS 9)	At 31 March 2018 HK$'000 (HKAS 39)
Trade receivables	**77,420**	50,094	50,094
Less: Expected credit loss allowances/ impairment losses	**(25,221)**	(23,924)	(23,084)
	52,199	26,170	27,010

Upon the adoption of HKFRS 9, an opening adjustment as at 1 April 2018 was made to recognised additional ECL on trade receivables (see note (2)(a)(i)(b)). Details of ECL assessment of trade receivables are set out in note 33.

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 360 days (2018: 30 to 90 days). Longer credit periods are provided to certain customers because the Group encouraged these customers for their start-up businesses. Due to the continuous slowdown in traditional retail sales of the consumer goods in the PRC resulted from gradually deceleration of the economic development in the PRC in recent years, the discouragement of excessive hospitality such as gifting by the PRC government and the consolidation and enhanced regulation of the PRC direct selling industry, operating performances of certain customers were adversely affected and these customers are in financial difficulties so that proportion of long aged trade receivables increased during the year. Accordingly, the Group seeks to maintain control over its past due receivables. Regarding those major customers, the Group uses an internal credit rating system to assess those customers' credit qualities, defines credit limits by customer and performs follow up procedures on settlements of outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company and ECL (2018: incurred loss) of trade receivables are provided to trade receivables. Trade receivables are non-interest-bearing.

15. TRADE RECEIVABLES (Continued)

An aged analysis of the trade receivables, net of expected credit loss allowances/impairment losses as at the end of the reporting period, based on the invoice dates, is as follows:

	2019 **HK$'000**	2018 HK$'000
Within 1 month	**8,962**	4,859
2 to 3 months	**15,755**	6,429
4 to 12 months	**20,984**	14,580
Over 12 months	**6,498**	1,142
	52,199	27,010

An aged analysis of the trade receivables, net of expected credit loss allowance/impairment losses 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:

	2019 **HK$'000**	2018 HK$'000
Current (neither past due nor impaired)	**23,788**	5,148
Within 1 to 3 months overdue	**5,680**	6,140
Within 4 to 12 months overdue	**19,526**	15,722
Over 12 months overdue	**3,205**	–
	52,199	27,010

15. TRADE RECEIVABLES (Continued)

The movements in the provision for expected credit loss allowances/impairment losses of trade receivables are as follows:

	Note	**2019 HK$'000**	2018 HK$'000
31 March 2018 under HKAS 39		**23,084**	20,783
Impact on initial application of HKFRS 9 – expected credit loss allowances recognised in opening accumulated losses		**840**	–
1 April 2018 under HKFRS 9		**23,924**	20,783
Provision for expected credit loss allowance / impairment losses recognised	5	**4,910**	2,819
Reversal of expected credit loss allowance/ impairment losses	5	**(2,115)**	(2,730)
Amounts written off as uncollectible		**–**	(11)
Exchange realignment		**(1,498)**	2,223
31 March 2019		**25,221**	23,084

Included in the above provision for impairment of the trade receivables as at 31 March 2018 were individually impaired trade receivables with an aggregate balance of HK$23,084,000. These individually impaired receivables were related to customers that are in financial difficulties and the directors of the Company assessed that the chance of recoverability is remote.

Receivables that were past due but not impaired are related to a number of individual customers that had good track records with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for credit loss allowance is necessary in respect of these balances as there were no significant change in credit quality of the balances and the balances were still considered to be fully recoverable. The Group did not hold any collateral over these balances.

Included in the Group's trade receivables as at 31 March 2019 were 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 which was beneficially owned as to 85.5% (2018: 85.5%) and 14.5% (2018:14.5%) 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 was also a substantial shareholder of the Company (note 30(a)(i)), of approximately HK$1,597,000 (2018: HK$5,329,000), which were repayable on similar credit terms to those offered to the major customers of the Group. Included in the balances due from Ideality Group, there were approximately HK$1,473,000 (2018: HK$2,350,000) which were past due at the end of the reporting period. Based on past experience, the directors of the Company determine that no provision (2018: Nil) for impairment is necessary in respect of these balances as there are no significant change in credit quality of the balances and all of these balances as at 31 March 2019 were fully settled subsequent to the end of the reporting period.

Details of ECL assessment of trade receivables are set out in note 33.

@ 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

	2019 HK$'000	2018 HK$'000
Prepayments for rental and advertising expenses	**3,425**	3,132
Deposits and other receivables *(note)*	**7,491**	6,013
Less: Credit loss allowances/impairment losses	**(169)**	(178)
	10,747	8,967

Note: Deposits and other receivables mainly comprised of rental and utility deposits and advances to staff for daily operation.

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

	Note	2019 HK$'000	2018 HK$'000
At beginning of year		**178**	229
Impairment loss reversed	*5*	**–**	(68)
Exchange realignment		**(9)**	17
At end of year		**169**	178

Included in the above provision for credit loss allowances/impairment of the prepayments, deposits and other receivables is a provision for individually impaired other receivables with an aggregate balance of approximately HK$169,000 (2018: HK$178,000). These individually impaired receivables are related to staff advances that are long outstanding and the directors of the Company assess that the chance of recoverability is remote.

17. LOAN RECEIVABLE

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 was denominated in RMB, which was unsecured, interest-bearing at fixed rate of 9% per annum and would be repayable within 6 months after the available date of releasing advance 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, 30(a)(iii) & (v) and 30(b)(i)) on the instruction of the Borrower. The loan interest income of approximately HK$683,000 was recognised as the "Interest income from loan receivable" in the consolidated statement of profit or loss for the year ended 31 March 2018. At 31 March 2017, the loan and interest receivable had been past due and repayable on demand. During the year ended 31 March 2018, the loan receivable and interest thereon were fully repaid by the Borrower and LRTG (as defined in notes 19 and 30(a)(v)) on the instruction of the Borrower. Details of loan receivable are set out in the announcements of the Company dated 28 February 2018 and 11 February 2019.

18. CASH AND BANK BALANCES/TIME DEPOSITS WITH ORIGINAL MATURITIES OF MORE THAN THREE MONTHS

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$76,596,000 (2018: HK$142,624,000) while the remaining cash and bank balances are denominated in HK$. 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.

All the Group's time deposits with original maturities of more than three months of approximately HK$22,225,000 (2018: HK$96,313,000) are denominated in HK$ at 31 March 2019 (2018: HK$) and not regarded as cash and cash equivalents as these time deposits are fixed deposits have maturity date over three months from the date of acquisition.

Cash at banks earns interest at floating rates based on daily bank deposit rates which range from 0.13% to 1.90% (2018: 0.01% to 1.38%) per annum. 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 bank balances 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:

	2019 **HK$'000**	2018 HK$'000
Current and not past due	**31**	1,176
Within 1 to 3 months overdue	**585**	2
Within 4 to 12 months overdue	**21**	–
Over 12 months overdue	**483**	483
	1,120	1,661

19. TRADE PAYABLES (Continued)

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

	2019 HK$'000	2018 HK$'000
Yunnan Longrun Tea Group Company Limited@ ("LRTG") 雲南龍潤茶業集團有限公司	**174**	646
Fengqing Longrun Tea Company Limited@ ("FLRT") 鳳慶龍潤茶業有限公司	**130**	397
Changning Longrun Tea Company Limited@ ("CLRT") 昌寧縣龍潤茶業有限公司	**12**	128
Yunnan Longfar Pharmaceutical Company Limited@ ("YNLF") 雲南龍發製藥股份有限公司	**302**	33
	618	1,204

Details of relationships with the Group regarding the aforesaid related parties are disclosed in note 30(a)(ii)-(v). The trade payables due to related parties are non-interest-bearing and are normally settled on 90-day terms.

20. OTHER PAYABLES, ACCRUALS, RECEIPTS IN ADVANCE AND DEPOSITS FROM CUSTOMERS/CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Receipts in advance and deposits from customers	**–**	18,706
Accruals	**23,127**	26,284
Deposits from customers	**9,403**	–
Other payables *(Note)*	**1,996**	3,445
	34,526	48,435
Contract liabilities – current portion	**4,136**	–
Contract liabilities – non-current portion	**49**	–
	4,185	–

Note: Included in the Group's other payables is the other payable due to YLRT (as defined in note 30(a)(iv)), a related party of the Group, of approximately HK$Nil (2018: HK$131,000). The balance was unsecured, interest free and repayable on demand.

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20. OTHER PAYABLES, ACCRUALS, RECEIPTS IN ADVANCE AND DEPOSITS FROM CUSTOMERS/CONTRACT LIABILITIES (Continued)

Contract liabilities as at 31 March 2019 are expected to be recognised as revenue as follows:

	HK$'000
Revenue expected to be recognised	
Within one year	**4,136**
In the second to fifth years	**49**
	4,185

21. FINANCE LEASES 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 leases payables are 5 years (31 March 2018: 3 to 5 years).

At 31 March 2019, the total future minimum lease payments under finance leases and its present values were as follows:

	Minimum lease payments 2019 HK$'000	Minimum lease payments 2018 HK$'000	**Present value of minimum lease payments 2019 HK$'000**	Present value of minimum lease payments 2018 HK$'000
Amounts payable:				
Within one year	**125**	280	**118**	267
In the second year	**83**	124	**82**	118
In the third to fifth years	**–**	83	**–**	82
Total minimum finance leases payments	**208**	487	**200**	467
Less: future finance charges	**(8)**	(20)		
Present value of finance leases payables	**200**	467		
Portion classified as current liabilities	**(118)**	(267)		
Non-current portion	**82**	200		

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 (the Maturity Date") and the conversion price is HK$0.27 per share subject to anti-dilutive adjustments. Neither the Company nor the holders of the Convertible Bond may demand early redemption. And the Convertible Bond bears interest 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. No Convertible Bonds had ever been converted or cancelled prior to the Maturity Date. During the year ended 31 March 2019 and upon the Maturity Date, the Company had paid to the holders of the Convertible Bonds a sum of HK$68,344,000 an amount equal to the aggregate of 100% of the principal amount of the Convertible Bonds outstanding and interest accrued and outstanding up to the Maturity Date 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, 6 February 2017 and 15 February 2019.

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 Bond with reference to a professional valuation performed by a professional independent valuer.

The fair value of the liability component on initial recognition 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.

All convertible bonds were redeemed by the principal amount at the maturity date on 25 January 2019.

The Convertible Bonds recognised were calculated as follows:

	2019 **HK$'000**	2018 HK$'000
Equity component		
At the beginning of the year	**12,549**	12,549
Redemption of Convertible Bonds	**(12,549)**	–
At the end of the year	**–**	12,549

	Note	**2019** **HK$'000**	2018 HK$'000
Liability component			
At the beginning of the year		**58,767**	52,032
Effective interest expense	*6*	**9,577**	10,299
Interest paid		**(3,544)**	(3,564)
Redemption of Convertible Bonds		**(64,800)**	–
At the end of the year		**–**	58,767

22. CONVERTIBLE BONDS (Continued)

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

Tax losses and deductible temporary differences

The 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:

	2019 **HK$'000**	2018 HK$'000
Tax losses	**167,007**	130,563
Deductible temporary differences	**348**	373
	167,355	130,936

The Group has tax losses arising in Hong Kong of approximately HK$114,916,000 (2018: HK$105,824,000) that may be carried forward indefinitely and subject to the approval by Hong Kong Inland Revenue Department ("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 27 June 2017 and 2 January 2018, IRD issued a revised statement of loss for the assessment year of 2015/2016 of the Company and agreed the loss carried forward was approximately HK$23,008,000.

The Group also has tax losses arising in the PRC of approximately HK$52,091,000 (2018: HK$24,739,000) that will expire from year 2020 to 2024 (2018: year 2019 to 2023) for offsetting against future taxable profits.

Withholding tax liability

Pursuant to the PRC Corporate Income Tax Law, 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 and applies to earnings after 31 December 2007. 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.

23. DEFERRED TAX (Continued)

Withholding tax liability (Continued)

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 totaled approximately HK$59,228,000 at 31 March 2019 (2018: HK$88,704,000).

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

24. SHARE CAPITAL

	2019 HK$'000	2018 HK$'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 2017, 31 March 2018 and 31 March 2019	**1,451,520,000**	**72,576**

Share options

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

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.

25. EQUITY COMPENSATION PLANS (Continued)

Share Option Scheme (Continued)

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.

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 options
At 1 April 2017, 31 March 2018 and 31 March 2019	**0.3**	**51,400,000**

No share options were granted, exercised or lapsed under the Scheme during the year ended 31 March 2019 (2018: Nil).

There are no vesting period and condition regarding the share option granted.

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) 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.

(c) 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(s).

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Note	**Liability component of convertible bonds** HK$'000	**Finance leases payables** HK$'000	**Due to directors of the Company** HK$'000	**Total** HK$'000
At 1 April 2017		52,032	876	3,507	56,415
Financing cash flows					
– Repayments		–	(409)	–	(409)
– Interest paid		(3,564)	(26)	–	(3,590)
– Advances from directors		–	–	243	243
Interest expenses	*6*	10,299	26	–	10,325
At 31 March 2018 and 1 April 2018		**58,767**	**467**	**3,750**	**62,984**
Financing cash flows					
– Repayments		**(64,800)**	**(267)**	**(1,974)**	**(67,041)**
– Interest paid		**(3,544)**	**(12)**	**–**	**(3,556)**
Interest expenses	*6*	**9,577**	**12**	**–**	**9,589**
At 31 March 2019		**–**	**200**	**1,776**	**1,976**

28. CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 March 2019 (2018: Nil).

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases part of its direct sales shop under operating lease arrangements, with leases negotiated for terms for 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 2019, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2019 **HK$'000**	2018 HK$'000
Within one year	–	96

(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 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2019 **HK$'000**	2018 HK$'000
Within one year	**3,924**	2,635
In the second to fifth years, inclusive	**1,709**	960
	5,633	3,595

30. 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	2019 HK$'000	2018 HK$'000
Sales of tea products to:			
Ideality Group	*(i), (vi)*	**140**	4,530
YNLF	*(ii), (vi)*	**68**	–
		208	4,530
Purchases of tea products from:			
雲縣天龍生態茶業有限公司 Yunxian Tialong Eco-Tea Company Limited@ ("YTET")	*(iii), (vi)*	**–**	303
CLRT^	*(iii), (vi)*	**10,464**	12,083
FLRT^	*(iii), (vi)*	**13,925**	16,915
LRTG^	*(v), (vi)*	**31,550**	14,394
Purchases of pharmaceutical products from:			
YNLF	*(ii), (vi)*	**1,215**	540
		57,154	44,235
Rental expense incurred to:			
雲南龍潤茶業發展有限公司 Yunnan Longrun Tea Development Company Limited@ ("YLRT")	*(iv), (vi)*	**204**	497

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) 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 a 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 a substantial shareholder of the Company.

(v) 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 a 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 purchases of tea products entered into by the Group during the year ended 31 March 2019 also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

30. 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") and YLRT are unsecured, interest-free 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 雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited)@ ("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, interest-free and without fixed terms of repayment.

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

	2019 HK$'000	2018 HK$'000
Short term employee benefits	**10,388**	10,210
Post-employment benefits	**108**	108
	10,496	10,318

31. FINANCIAL INSTRUMENTS BY CATEGORY

The categories of financial instruments of the Group as at 31 March 2019 and 2018 are as below:

	2019 HK$'000	2018 HK$'000
Financial assets		
At amortised cost	**170,153**	282,494
AFS financial assets	**–**	7,500
	170,153	289,994
Financial liabilities		
At amortised cost	**37,810**	94,542

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

32. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Except for the convertible bonds, the directors of the Company has assessed that the fair values of financial assets and other financial liabilities including cash and bank balances, time deposits with original maturities of more than three months, trade receivables, trade payables, 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 was 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 2018 was assessed to be insignificant. The fair value of the convertible bonds approximates to their carrying amounts as at 31 March 2018.

33. 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 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, 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 (including trade receivables, deposits and other receivables, cash and bank balances, trade payables, other payables and accruals and amounts due to related companies) 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.

Credit risk and impairment assessment

The carrying amount of trade receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group has a significant concentration of credit risk in relation to trade receivables as the trade receivables due from the five largest customers accounted for 37.5% (2018: 29.8%) of the Group's trade receivables at the end of the reporting period.

As disclosed in note 15, due to adverse operating environment of tea products selling business in the PRC, operating performances of certain customers of the Group were adversely affected and these customers were in financial difficulties so that proportion of long aged trade receivables increased during the year. Accordingly, the Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2018: incurred loss model) on trade balances based on provision matrix using simplified approach and estimated loss rates which are time value of money and are adjusted for forward-looking information that is available without undue cost or effort.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

With respect to credit risk arising from the other financial assets of the Group, comprising cash and bank balances, time deposits with original maturities of more than three months and deposits and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure being equal to the carrying amounts of these instruments. There is no significant concentration of credit risk within the Group in relation to the other financial assets. Bank balances of the Group are held with the financial institutions of good standing.

As part of the Group's credit risk management, the Group categories its customers based on similar risk characteristics that are representative of the customers' abilities to pay the outstanding amounts due. The following table provides information about the Group's exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 March 2019 using lifetime ECL approach (not credit impaired).

	ECL rate	**Gross amount of trade receivables as at 31 March 2019 HK$'000**
Current (neither past due nor impaired)	**3.1%**	**24,550**
Within 1 to 3 months overdue	**4.7%**	**5,958**
Within 4 to 12 months overdue	**10.8%**	**21,900**
Over 12 months overdue	**87.2%**	**25,012**
		77,420

The estimated loss rates of trade receivables are estimated based on historical settlement data and taking into account time value of money and have been adjusted for forward-looking information such as gross domestic product growth rate that is available without undue cost or effort.

	Lifetime ECL (not credit impaired) HK$'000
At 31 March 2018 under HKAS 39	23,084
Adjustment upon application of HKFRS 9	840
At 1 April 2018 under HKFRS 9	**23,924**
Changes due to financial instruments recognised during the year:	
– Provision for expected credit loss allowances recognised	**4,910**
– Reversal of expected credit loss allowances recognised	**(2,115)**
– Exchange adjustments	**(1,498)**
At 31 March 2019	**25,221**

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

Changes in the expected credit loss allowance for trade receivables are mainly due to:

	As at 31 March 2019 Increase/ (decrease) in lifetime ECL (non-credit impaired) HK$'000
Increase in trade receivables	**4,910**
Settlement of impaired trade receivables	**(2,115)**

Liquidity risk

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

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The following table details 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:

	2019				
	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 at 31/3/2019 HK$'000**
Trade payables	**1,120**	**–**	**–**	**1,120**	**1,120**
Other payables, accruals and deposits from customers	**34,526**	**–**	**–**	**34,526**	**34,526**
Due to related companies	**188**	**–**	**–**	**188**	**188**
Due to directors of the Company	**1,776**	**–**	**–**	**1,776**	**1,776**
Finance leases payables	**125**	**83**	**–**	**208**	**200**
	37,735	**83**	**–**	**37,818**	**37,810**

	2018				
	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 at 31/3/2018 HK$'000
Trade payables	1,661	–	–	1,661	1,661
Other payables and accruals and deposits from customers	29,729	–	–	29,729	29,729
Due to related companies	168	–	–	168	168
Due to directors of the Company	3,750	–	–	3,750	3,750
Finance leases payables	280	124	83	487	467
Convertible bonds and interests (assume no conversion)	68,364	–	–	68,364	58,767
	103,952	124	83	104,159	94,542

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group does not expose to cash flow interest rate risk arising from its finance leases payables (2018: loan receivable, finance leases payables and convertible bonds) as the interest rates underlying Group's loan receivable and finance leases payables (2018: loan receivable, finance leases payables 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.

34. 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 2019 and 2018.

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:

	2019 **HK$'000**	2018 HK$'000
Total liabilities	**42,707**	113,436
Total equity	**138,084**	184,210
Gearing ratio	**30.9%**	61.6%

35. 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	**2019** **HK$'000**	2018 HK$'000
Non-current assets			
Property, plant and equipment		**20**	28
Investments in subsidiaries		**117,242**	117,242
Total non-current assets		**117,262**	117,270
Current assets			
Prepayments, deposits and other receivables		**270**	198
Due from subsidiaries		**11,413**	98,241
Cash and bank balances		**–**	1
Total current assets		**11,683**	98,440
Current liabilities			
Accruals		**10,624**	11,132
Due to a subsidiary		**46,144**	6,750
Due to directors of the Company		**778**	2,752
Convertible bonds	*22*	**–**	58,767
Total current liabilities		**57,546**	79,401
Net current (liabilities)/assets		**(45,863)**	19,039
Net assets		**71,399**	136,309
Equity			
Issued share capital		**72,576**	72,576
Reserves *(note)*		**(1,177)**	63,733
Total equity		**71,399**	136,309

35. 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 2017	253,001	46,999	6,129	12,549	(230,198)	88,480
Loss and total comprehensive loss for the year	–	–	–	–	(24,747)	(24,747)
At 31 March 2018 and 1 April 2018	253,001	46,999	6,129	12,549	(254,945)	63,733
Transitional adjustments on initial application of HKFRS 9	–	–	–	–	(41,307)	(41,307)
At 1 April 2018	253,001	46,999	6,129	12,549	(296,252)	22,426
Loss and total comprehensive loss for the year	–	–	–	–	(23,603)	(23,603)
Redemption of convertible bond	–	–	–	(12,549)	12,549	–
At 31 March 2019	**253,001**	**46,999**	**6,129**	**–**	**(307,306)**	**(1,177)**

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.

36. 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 1 (Revised) and HKAS 28 Amendments	Definition of Material[2]
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 and HKFRS 10 amendments (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures[1]
HKFRS 3 (Revised) Amendments	Definition of a Business[2]
HKFRS 9 Amendments	Prepayment Features with Negative Compensation[1]
HKFRS 16	Leases[1]
HK (IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015-2017[1]
Conceptual Framework For Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[2]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 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.

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

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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, as well as the impact of lease modifications, amongst others. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee 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, extensive disclosures are required by HKFRS 16.

As at 31 March 2019, the Group has non-cancellable operating lease commitments as disclosed in note 29(b) to consolidated financial statements. A preliminary assessment indicates that approximately HK$5,633,000 out of these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. The findings from the preliminary assessment are subject to change.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

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				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**94,820**	81,670	123,690	217,659	256,439
(Loss)/profit before tax	**(36,206)**	(33,887)	(32,167)	4,799	(207,441)
Income tax (expense)/credit	**(714)**	(15)	(264)	(2,385)	3,564
(Loss)/profit for the year	**(36,920)**	(33,902)	(32,431)	2,414	(203,877)
Attributable to:					
Owners of the Company	**(36,920)**	(33,902)	(32,431)	2,414	(203,877)

ASSETS AND LIABILITIES

	As at 31 March				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**180,791**	297,646	341,680	324,424	361,267
Total liabilities	**(42,707)**	(113,436)	(137,404)	(98,272)	(119,729)
	138,084	184,210	204,276	226,152	241,538