LongRun
龍潤

LONGRUN TEA GROUP COMPANY LIMITED

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

Annual Report 2020

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Corporate Information

BOARD OF DIRECTORS

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

Second Floor, Century Yard,
Cricket Square, P.O. Box 902,
Grand Cayman, KY1 – 1103,
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

BT Corporate Governance Limited
(formerly known as "Corporate Governance Professionals 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
Second Floor, Century Yard,
Cricket Square, P.O. Box 902,
Grand Cayman, KY1 – 1103,
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 2020.

In 2019, global economic growth remained weak amid continuing global turmoil and significantly higher levels of risk exposure. Under the influences of factors such as the Sino-US trade dispute and economic slowdown in China, both consumer and investment sentiments in China have weakened during the first half of this financial year.

Prior to the Chinese New Year in 2020, the outbreak of the novel coronavirus (COVID-19) rapidly spread around the globe and caused pandemic crisis worldwide. Many countries have ultimately taken lockdown measures to prevent the spread of the virus. Inevitably, the pandemic has brought China's retail market to an extremely cold winter. During the outbreak, people chose to stay home and practice social distancing which had significantly affected nearly every aspect of economic activities in China.

With the drastic actions taken by the PRC Government, the COVID-19 pandemic has been contained and economic activities are being gradually resumed. The outbreak of COVID-19 has aroused the health awareness of the general public and we have launched a new product of instant pu-erh tea extracts for weight management at the end of the financial year.

In August 2019, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") issued a letter to the Company stating the decision (the "Delisting Decision") of the Listing Committee of the Stock Exchange to cancel the listing of the Company's shares due to prolonged trading suspension. The Company had applied for a review of the Delisting Decision by the Listing Review Committee of the Stock Exchange and in December 2019, the Listing Review Committee of the Stock Exchange issued a letter to the Company advising that it has decided (the "Review Decision") to uphold the Delisting Decision. After seeking legal and professional advice, the Company decided to challenge the the Review Decision and applied for a leave to apply for a judicial review to the High Court of Hong Kong in December 2019. We are now preparing various documents for the leave application and will inform shareholders of any material development as and when appropriate.

The year 2020 will be full of uncertainties and challenges, in particular of the progress of resumption of China's economic activities as well as the development of the Sino-US trade dispute. Despite such uncertainties, the Group will continue to review and refine its businesses and to explore opportunities in new product development to strengthen its operations.

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 ongoing trust and support. 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 2020

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 March 2020, the revenue of the Group decreased by approximately 39.8% to approximately HK$57,120,000 from approximately HK$94,820,000 for the year ended 31 March 2019. The decrease in revenue was mainly brought by the slowing down of the growth of the PRC economy, the general deteriorating operating environment in the PRC resulted from the Sino-US trade tension, and the disruption of economic activities brought by the outbreak of noval coronavirus (COVID-19). The gross profit of the Group decreased by approximately 26.2% to approximately HK$23,753,000 for the year ended 31 March 2020 from approximately HK$32,169,000 for the year ended 31 March 2019. The decrease in gross profit is mainly attributable to the decrease in revenue. Gross profit margin for the year ended 31 March 2020 improved to 41.6% from 33.9% for the last corresponding period. Such improvement was mainly due to a decrease in the Group's proportion of sales generated from products with lower profit margin.

Other income and gains of the Group for the year ended 31 March 2020 decreased to approximately HK$1,182,000 from approximately HK$8,282,000 for the year ended 31 March 2019. Such decrease was mainly due to the absence of one-off gain on disposal of financial assets at fair value through profit and loss which occurred during the previous financial year.

Selling and distribution expenses increased to approximately HK$48,054,000 for the year ended 31 March 2020 as compared to approximately HK$31,832,000 for the year ended 31 March 2019. The increase in selling and distribution expenses was mainly derived from the increase in promotion and advertising expenses associated with launching of new products.

Administrative expenses amounted to approximately HK$33,053,000 for the year ended 31 March 2020, roughly remaining at the same level of approximately HK$32,441,000 for the year ended 31 March 2019. The slight increase in administrative expenses was mainly attributable to the increase in professional fees.

Net provision for expected credit loss allowance on trade receivables for the year ended 31 March 2020 increased to HK$13,203,000 from HK$2,795,000 for the year ended 31 March 2019. Such increase was mainly due to the increase in allowance made to customers resulting from the slowing down of the growth of the PRC economy and the disruption of economic activities brought by the outbreak of COVID-19.

Finance cost decreased to approximately HK$557,000 for the year ended 31 March 2020 from approximately HK$9,589,000 for the year ended 31 March 2019. The decrease was mainly due to the absent of effective interest expense on the convertible bonds which were issued by the Company on 27 January 2017 and were fully redeemed during the previous financial year.

Income tax expense increased to approximately HK$750,000 for the year ended 31 March 2020 from approximately HK$714,000 for the year ended 31 March 2019.

Loss attributable to owners of the Company for the year ended 31 March 2020 was approximately HK$70,682,000 (for the year ended 31 March 2019: HK$36,920,000). The increase of loss for the year under review as compared to the previous financial year was mainly due to (i) decrease in revenue and gross profit; (ii) increase in expected credit loss allowances on trade receivables provided; and (iii) increase in promotion and advertising expenses for the year ended 31 March 2020.

Basic loss per share was HK4.87 cents for the year ended 31 March 2020 against basic loss per share HK2.54 cents for the year ended 31 March 2019.

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 continued to diversify its customer base by providing tailor made non-"Longrun (龍潤)" branded tea products to corporate customers in the PRC. Revenue for the year under review from tea and other food products businesses was approximately HK$54,238,000 (for year ended 31 March 2019: HK$90,947,000), accounting for approximately 95.0% (for year ended 31 March 2019: 95.9%) of the Group's total revenue.

For the year under review, the Group has successfully engaged different independent suppliers of tea products and substantially reduced the Group's reliance on the connected supplier. The Group will continue to explore opportunities to set up its own tea manufacturing base in Yunnan Province and to engage different independent suppliers with a view to further diversify its procurement sources and reduce its potential business risk.

Retail Network

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 mainly sold in the Group's traditional tea shops retail network comprising both franchised and self-owned tea shops. During the financial year ended 31 March 2020, the Group managed a retail network comprising about 420 franchisees located in Mainland China. Given the challenging consumer market, the management will continue to actively manage the retail 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 (one in Kunming World Horticultural Expo Garden and one in the Group's headquarter in Kunming) 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 4,300 square meters. Given the outbreak of COVID-19 in the last quarter of the financial year, travel restrictions were imposed in the PRC and Yunnan's tourists related businesses were adversely affected. However, business activities in the PRC are being resumed and we see tourists related businesses are picking up gradually. The operating environment of tourists related retail sales is expected to remain very challenging in the future.

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 bring positive effect to the development of the direct selling industry in the longer term. Against such background, the Group will continue to develop tailor made tea products using customer's packaging design and brand name for their onward distribution in direct selling platforms.

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$2,882,000 (for the year ended 31 March 2019: HK$3,873,000), accounting for approximately 5.0% (for the year ended 31 March 2019: 4.1%) of the Group's total revenue. For the year ended 31 March 2020, the decrease in revenue from the healthcare and pharmaceutical business was mainly due to the fact that the retail sector in Hong Kong was deeply affected by the ongoing demonstration and social unrest as well as 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.

Management Discussion and Analysis

PROSPECTS

The Group's operating environment remains very challenging. Trade relation between China and the United States are tense, bringing pressure to the PRC economy. The COVID-19 outbreak has rapidly spreaded around the globe and caused pandemic crisis worldwide, which in turn has significantly affected the PRC economy. Traditional retail sales of consumer goods in the PRC has been significantly affected and showing a continuous slowdown. It is likely that the general consumer market in the PRC will continue to face uncertainties and remain very competitive.

With the drastic actions taken by the PRC Government, the COVID-19 pandemic has been contained and economic activities are being gradually resumed. We believe that the PRC economy will be stabilising in the second half of 2020 and the encouragement of domestic consumption by the PRC Government shall present opportunities for the Group.

The Group has launched a new marketing and advertising campaign for launching a new line of Pu-erh tea products right after the closing of second quarter of the 2019 financial year and we expect to see the promotion results in the 3rd to 4th quarter of this financial year as delayed by the COVID-19 outbreak. The outbreak of COVID-19 has aroused the health awareness of the general public in the PRC and we have launched a new product of instant Pu-erh tea extracts for weight management at the end of the financial year under review. We have engaged social media marketing in the promotion and distribution of this new product targeting to health-conscious customer. The Group will continue to expand its franchise network of tea shops and to explore other new distribution channels with a view to broaden its customer base.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2020, the Group had current assets of HK$93,692,000 (31 March 2019: HK$175,931,000), time deposits with original maturities of more than three months of Nil (31 March 2019: HK$22,225,000) and cash and cash equivalent of HK$51,146,000 (31 March 2019: HK$88,407,000). The Group's current liabilities as at 31 March 2020 were HK$41,629,000 (31 March 2019: HK$42,576,000).

As at 31 March 2020, total equity was HK$61,670,000 (31 March 2019: HK$138,084,000). The gearing ratio as at 31 March 2020, being the ratio of total liabilities to total equity, was 70.1% (31 March 2019: 30.9%).

EMPLOYEES

As at 31 March 2020, the Group had 236 employees (31 March 2019: 231 employees).

Remuneration policy and package for the Group's employees are reviewed and approved by the Board on a periodical basis. The Group remunerates its employees based on industry practice and performance of the Group and individual employees. The Group also makes available a share option scheme adopted by the Company on 17 August 2012 and offers discretionary bonus to its employees.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 March 2020 (31 March 2019: Nil).

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 2020, no Group's assets have been pledged (31 March 2019: Nil).

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Chiu Ka Leung, aged 56, 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 73, 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 46, 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 48, 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 61, 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 57, 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 44, 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 55, 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 50, 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 51, 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 51, 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 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 2020, the Company has applied the principles and complied with the code provisions set out in the CG Code. Key corporate governance principles and practices of the Company 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 2020 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 and Member of the Remuneration Committee)*
Mr. Jiao Shaoliang	*(Member of the Executive Committee)*
Dr. He William (also known as Lu Pingguo)	*(Member of both the Executive Committee and 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 2020, 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.

At the forthcoming annual general meeting of the Company (the "2020 AGM"), Mr. Jiao Shaoliang, Dr. He Willian and Mr. Kwok Hok Lun shall retire by rotation pursuant to the Articles provisions stated in the foregoing paragraph. All the above three retiring directors, being eligible, will offer themselves for re-election at the 2020 AGM. The Board and the Nomination Committee recommended their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above three directors as required by the Listing Rules.

A5. Training and Continuing Development for Directors

Each newly appointed director shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development for directors are arranged whenever necessary. In addition, reading material on new or changes to salient laws and regulations applicable to the Group are provided to directors from time to time for their studying and reference.

During the year ended 31 March 2020, 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 corporate governance matters and update on the Listing Rules amendments; 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 2020 are set out below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Internal Control Committee	Annual General Meeting
Executive directors:						
Dr. Chiu Ka Leung	4/4	–	2/2	1/1	1/1	1/1
Ms. Yeh Shu Ping	4/4	–	2/2	–	–	1/1
Mr. Jiao Shaoliang	4/4	–	–	–	–	0/1
Dr. He William	4/4	–	–	–	1/1	0/1
Independent non-executive directors:						
Mr. Lam Siu Hung	4/4	2/2	2/2	1/1	1/1	1/1
Mr. Guo Guoqing	1/4	0/2	2/2	1/1	–	0/1
Mr. Kwok Hok Lun	4/4	2/2	2/2	1/1	1/1	1/1
Dr. Liu Zhonghua	1/4	–	2/2	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 2020.

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 2020, the Company 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 2020, the Remuneration Committee has held 2 meetings (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

– Review 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 2020 is set out below:

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

Details of the remuneration of each director of the Company for the year ended 31 March 2020 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.

The Company has adopted the Director Nomination 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 2020, 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 28 August 2019.

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 2020, the Audit Committee has held two meetings (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

– Review and discussion of the annual consolidated financial statements, results announcement and report for the year ended 31 March 2019, the related accounting principles and practices adopted by the Group and the relevant audit findings;

– Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 September 2019, and the related accounting principles and practices adopted by the Group;

B4. Audit Committee (Continued)

– Review and discussion of the continuing connected transactions of the Company for the year ended 31 March 2019 and the six months ended 30 September 2019;

– Consideration and discussion of the major internal audit issues for the year ended 31 March 2019 and the six months ended 30 September 2019;

– Assessment of the effectiveness of the Group's risk management and internal control systems based on the reports from external professional firms; and

– 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.

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 ended 31 March 2020 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 BT Corporate Governance Limited ("BTCG") (formerly known as "Corporate Governance Professionals Limited"), 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 BTCG, the Board and the Audited Committee/Internal Control Committee are satisfied that the Group's internal control system is sound and effective.

Our Enterprise Risk Management Framework

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 BTCG. 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 2020.

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 2020, 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 2020 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 2020 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable** (HK$)
Audit services by Moore Stephens CPA Limited:	
– audit fee for the year ended 31 March 2020	840,000
Non-audit services by Moore Stephens CPA Limited:	
– interim review for the six months ended 30 September 2019	185,000
TOTAL:	1,025,000

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) 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 2020.

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 2020 and the state of affairs of the Group at that date are set out in the financial statements on pages 52 to 119.

The directors do not recommend the payment of a dividend for the year ended 31 March 2020 (2019: 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 120. This summary does not form part of the audited consolidated financial statements of the Group for the year ended 31 March 2020.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movement of the Company's share capital during the year is set out in note 24 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year 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 56 respectively.

DISTRIBUTABLE RESERVES

At 31 March 2020, the Company had no reserves available for distribution.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$112,000.

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 31 to 47 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 81% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 26%.

During the year under review, sales to the Group's five largest customers accounted for approximately 23% of the total sales for the year and sales to the largest customer included therein amounted to approximately 8%.

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 two of the five largest suppliers which accounted for approximately 23% of the total purchases of the Group.

Mr. Jiao Shaoliang, a director of the Company, had beneficial interests in the largest supplier and two of the five largest suppliers which accounted for approximately 23% 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, Mr. Jiao Shaoliang, Dr. He William and Mr. Kowk Hok Lun will retire as directors of the Company at the annual general meeting in 2020 (the "2020 AGM"). The above retiring directors, being eligible, will offer themselves for re-election at the 2020 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 2020 AGM has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme operated by the Company as disclosed in the section headed "SHARE OPTIONS" and in note 25 to the consolidated financial statements, neither at the end of nor at any time during the year there subsisted any arrangement to which the Company, any of its subsidiaries or holding companies, was a party, and the objects of or one of the objects of such arrangement are/is to enable the Company's directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "CONNECTED 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 2020, 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 2020.*

In addition to the above, as at 31 March 2020, 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 2020, 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 2020, 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 2020.*

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

Save as disclosed above, as at 31 March 2020, 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 2020 are as follows:

	Number of share options							
Name or category of option holder	Outstanding as at 1 April 2019	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 March 2020	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.

EQUITY-LINKED AGREEMENTS

Other than the Scheme as disclosed above and in note 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.

Report of the Directors

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") for a term of 10 years commencing from 12 May 2009 which is renewable automatically up to the expiry date to be determined by YNLR. As Dr. Chiu Ka Leung (controlling shareholder and executive director of the Company) and Mr. Jiao Shaoliang (executive director of the Company) are directly interested in 97% and 3%, respectively, of the issued share capital of LRTG, LRTG is an associate of Dr. Chiu Ka Leung and thus a connected person of the Company within the meanings of the Listing Rules and the transactions contemplated under the Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On 28 March 2019, YNLR confirmed with LRTG, by way of a written confirmation (the "Confirmation"), that the term of the Purchase Agreement would be renewed until 31 March 2021. Save as the renewal of the term, the other provisions of the Purchase Agreement would remain unchanged.

As the annual caps in respect of the transactions contemplated under the Purchase Agreement for the three financial years ended 31 March 2019 approved by the then independent shareholders of the Company on 16 June 2016 expired on 31 March 2019, the Company intended to seek its independent shareholders' approval (the "Independent Shareholders' Approval") on renewal of the annual caps (the "Renewal Annual Caps") in respect of the transactions contemplated under the Purchase Agreement for the two financial years ending 31 March 2021. In light of the Independent Shareholders' Approval was not expected to be obtained on or before 31 March 2019, YNLR and LRTG entered into a term sheet (the "2019 Term Sheet") on 28 March 2019, pursuant to which the Group would be 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 transactions be hereinafter referred to as the "Transactions") in accordance with the provisions of the Purchase Agreement, but with an aggregate maximum purchase amount of less than HK$10,000,000 from 1 April 2019 to the date of which the Independent Shareholders' Approval obtained. 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 2019 Term Sheet, YNLR is able to secure the exclusive supply of high quality of the Tea Products at favourable purchase terms.

The purchase price of the Tea Products payable by YNLR to LRTG under the Transactions 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.

Details of the Confirmation and the Transactions contemplated under the 2019 Term Sheet are set out in the announcement of the Company dated 28 March 2019.

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

CONNECTED TRANSACTION (Continued)

Purchase of Tea Products (Continued)

Subsequent to the year under review, the Company announced on 17 April 2020 that (i) the Company was not yet to finalise the information contained in the circular in respect of the Renewal Annual Caps within the financial year ended 31 March 2020, thereby the Renewal Annual Caps would be no longer applicable and the Company would not proceed with the Renewal Annual Caps; and (ii) YNLR and LRTG entered into a term sheet (the "2020 Term Sheet") on 17 April 2020 in relation to the purchase of the Tea Products pursuant to the Purchase Agreement from 17 April 2020 to 31 March 2021 with an aggregate maximum purchase amount of less than HK$10,000,000. Details of the cancellation of the Renewal Annual Caps and the transactions contemplated under the 2020 Term Sheet are set out in the announcement of the Company dated 17 April 2020.

For the year ended 31 March 2020, the total amount of purchase price for the Tea Products paid to LRTG under the Transactions contemplated under the 2019 Term Sheet amounted to HK$8,854,000, which was within the above maximum purchase amount of less than HK$10,000,000. Further details of the Transactions are included in note 30(a) to the consolidated financial statements for the year ended 31 March 2020.

The independent non-executive directors of the Company have reviewed the Transactions for the year ended 31 March 2020 and confirmed that the Transactions had been entered into by the Group: (a) in its ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the 2019 Term Sheet and 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.

Report of the Directors

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 Tuesday, 25 August 2020 to Friday, 28 August 2020 (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 2020, 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 Monday, 24 August 2020.

AUDITORS

Moore Stephens CPA Limited, the auditor of the Company, will retire and, being eligible, offer themselves for re-appointment at the 2020 AGM. A resolution will be submitted to the 2020 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 2020

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

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 Environment, 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 the 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 2019/20. This Report 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 its existing 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 focus 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.

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

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 Group's overall performance in environmental protection, human resources, operating practice and community involvement for the financial year from 1 April 2019 to 31 March 2020 ("Reporting Period"). HKEX's Guide is provided for cross-referencing purpose and is shown from pages 43 to 47 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. In particular, 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 2020. For details of corporate governance, please refer to the "Corporate Governance Report" on pages 9 to 19 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.

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 the 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 Water Pollution Prevention and Control Law of the PRC（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 three types of our activities, including the use of motor vehicles, the consumption of electricity and the business air travel by employees.

During the Reporting Period, YNLR produced 162.63 kg of Nitrogen Oxides, 0.17 kg of Sulphur Oxides, 15.58 kg of Particulate Matter and 367.77 t of Carbon Dioxide. Details of the emissions are summarized as below.

		Unit			Data	
Emission Indicators	**Source**	**For the year ended 31 March 2020**	**For the year ended 31 March 2019**	**Emission Type**	**For the year ended 31 March 2020**	**For the year ended 31 March 2019**
KPI A1.1					(in g)	
Emission Data from Vehicles	Kilometres Travelled	183,765 km	184,206 km	Nitrogen Oxides	162,632.03	163,022.31
				Particulate Matter	15,583.27	15,620.67
	Units of Fuel Consumed					
	Petrol	11,646.34 L	20,792 L	Sulphur Oxides	171.20	305.64
KPI A1.2						
Total Greenhouse Gas ("GHG") Emissions					(in t)	
Scope 1: Direct Emissions or Removals from Sources						
Scope 1b – GHG Emissions from Mobile Combustion Sources	Units of Fuel Consumed					
	Petrol	11,646.34 L	20,792 L	Carbon Dioxide	31.52	56.28
Scope 2 – Energy Indirect Emissions						
	Unit of Electricity Consumed	348,496 kWh	413,904 kWh	Carbon Dioxide	291.59	346.31
Scope 3 –Other Indirect GHG Emissions (Not Necessary)						
	Aircraft Fuel Consumption/ Mileage	2,479,089.3 kg	N/A	Carbon Dioxide	44.66	N/A
Total Amount of Carbon Dioxide Produced during the Reporting Period:					367.77	402.59

The Group purchased an electric vehicle during the year. Therefore, although the number of kilometres travelled by cars was similar with that of the previous year, the gasoline consumption decreased. 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 protection is more than merely 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 our operations. A number of measures have been implemented to achieve the reduction of emissions, such as optimizing our 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**	
KPI 1.4		(in tonnes)	
		For the year ended 31 March 2020	For the year ended 31 March 2019
Total non-hazardous waste produced			
	Waste paper	0.52280	0.48040
Non-hazardous waste produced per tonne of unit		(in tonnes/unit produced)	
	Waste paper	0.00002	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, purchase printing paper with recycled content, and regularly evaluate 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 is detailed below.

Energy Consumption	Source	Unit	
KPI 2.1			
		For the year ended 31 March 2020	For the year ended 31 March 2019
Total consumption			
	Electricity	348,496.00 kWh	413,904.00 kWh
Consumption per capita			
	Electricity	1,716.73 kWh per capita	2,069.52 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, maximize the use of natural light, and divide 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 adopt 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	
KPI 2.2			
		For the year ended 31 March 2020	For the year ended 31 March 2019
Total consumption			
	Water	5,681.00 cubic meters	4,161.00 cubic meters
Consumption per capita			
	Water	27.99 cubic meters per capita	20.81 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, the Labour Contract Law of the PRC, and the 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.

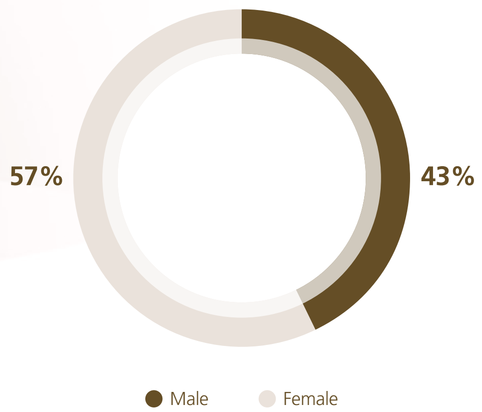
4.1 Employment and Welfare (Continued)

To ensure there is sufficient rest time for our employees, we manage the work schedules so 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.

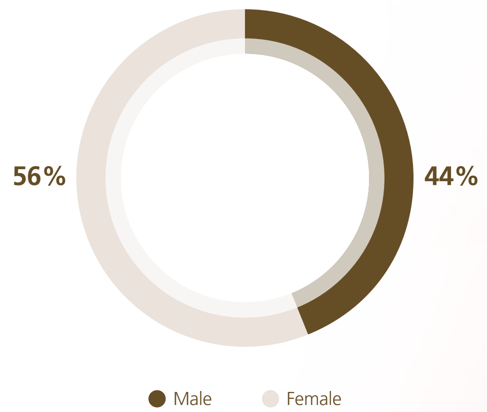
As part of our effort to retain talents, remuneration package for employees are reviewed periodically on the basis of industry practice and performance of the Group and individual employees.

As of 31 March 2020, the Group had a total of 203 employees. The breakdowns of our workforce by gender, age and employment level are as follows:

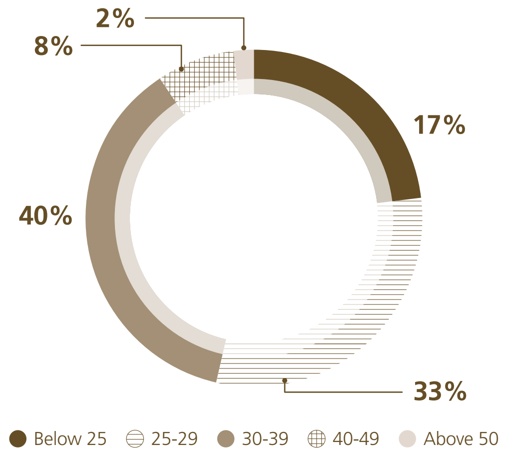
As of 31 March 2020 by Gender



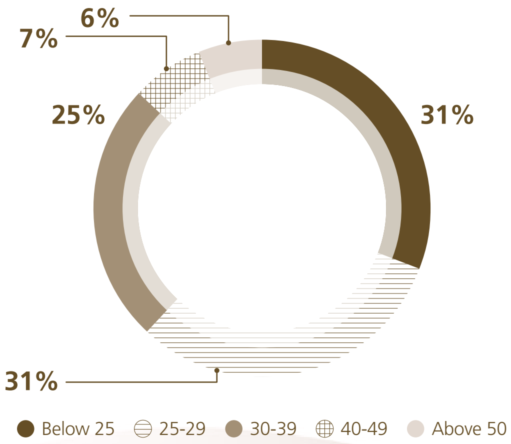
As of 31 March 2019 by Gender



As of 31 March 2020 by Age Group

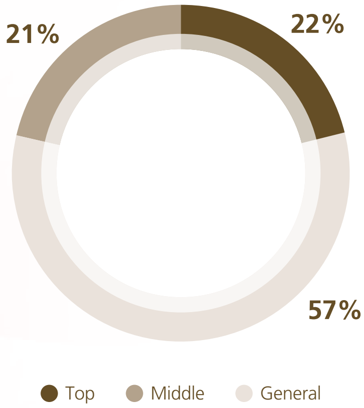


As of 31 March 2019 by Age Group

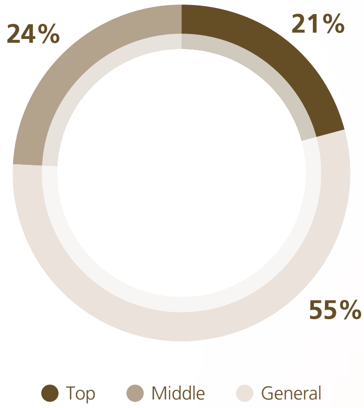


4.1 Employment and Welfare (Continued)

As of 31 March 2020
by Employment Level



As of 31 March 2019
by Employment Level



During the Reporting Period, 45 (2019: 64) employees left the Group's mainland companies, while no employees left our Hong Kong companies. The turnover rates are as follows.

Employee Turnover Rate	**For the year ended 31 March 2020**	For the year ended 31 March 2019
By Gender		
Male	**33%**	41%
Female	**67%**	59%
By Age		
< 25	**38%**	41%
25-29	**27%**	39%
30-39	**20%**	14%
40-49	**16%**	6%
> 50	**0%**	0%

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, due to the outbreak of the new coronavirus pneumonia, YNLR provided staff training in a total of 154 hours only, representing a decrease of 92.88% as compared with 2,163 training hours last year. 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 2020**	For the year ended 31 March 2019
By Gender		
Male	**3.70**	28.00
Female	**3.83**	28.00
By employment category		
Entry level	**3.81**	28.00
Middle level	**3.81**	28.00
Management level	**3.25**	28.00

Percentage of employees trained	**For the year ended 31 March 2020**	For the year ended 31 March 2019
By gender		
Male	**56.1%**	44.3%
Female	**43.9%**	55.7%
By employee category		
Entry level	**51.2%**	82.2%
Middle level	**39.0%**	15.5%
Management level	**9.8%**	2.3%

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 9 (2019: 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 qualify assurance, that have a significant impact on us, including the Food Safety Law of People's Republic of China（中華人民共和國食品安全法）, the Measures for Management of Food Licensing（食品經營許可管理辦法）and the 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 sold a total of 24,059 units (2019: 52,947 units) of products, out of which 204 units (2019: 118 units) were subjected to recalls due to safety and health reasons, accounting for 0.85% (2019: 0.22%) of total products sold and representing a year-on-year increase of 0.63%.

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, 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 implements 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 the 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.

To support poverty alleviation in poverty-stricken areas and fulfil social responsibilities, the Group donated RMB100,000 to the Foundation for Guangcai Program（光彩事業基金會）in Yunnan Province, China, on 4 December 2019, to promote poverty alleviation and social welfare development.

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 of 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
B6. Product Responsibility (Continued)		
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

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大華馬施雲
會計師事務所有限公司

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

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 52 to 119, which comprise the consolidated statement of financial position as at 31 March 2020, 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, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, 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 OPINION

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 opinion.

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

The directors of the Company (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 2020 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.

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. We have nothing to report in this regard.

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 2020. 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.

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 2020, there were trade receivables (net of expected credit loss allowance) of approximately HK$26,892,000. The Group had recognised expected credit loss allowance resulting in a net impact charged to profit or loss of approximately HK$13,203,000 during the year. The management 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 31 March 2020 and discussed 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 of 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.

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

– 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.

– 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 2020

Consolidated Statement of Profit or Loss

For the year ended 31 March 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	4	**57,120**	94,820
Cost of sales		**(33,367)**	(62,651)
Gross profit		**23,753**	32,169
Other income and gains	4	**1,182**	8,282
Net provision for expected credit loss allowance on trade receivables	15	**(13,203)**	(2,795)
Selling and distribution expenses		**(48,054)**	(31,832)
Administrative expenses		**(33,053)**	(32,441)
Finance costs	6	**(557)**	(9,589)
Loss before tax	5	**(69,932)**	(36,206)
Income tax expense	9	**(750)**	(714)
Loss for the year		**(70,682)**	(36,920)
Loss attributable to owners of the Company		**(70,682)**	(36,920)
Loss per share attributable to owners of the Company	11		
Basic and diluted		**HK(4.87) cents**	HK(2.54) cents

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	2020 HK$'000	2019 HK$'000
Loss for the year	**(70,682)**	(36,920)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(5,732)**	(8,366)
Other comprehensive loss for the year, net of income tax	**(5,732)**	(8,366)
Total comprehensive loss for the year	**(76,414)**	(45,286)
Total comprehensive loss attributable to owners of the Company	**(76,414)**	(45,286)

Consolidated Statement of Financial Position

At 31 March 2020

	Notes	**2020 HK$'000**	2019 HK$'000
Non-current assets			
Property, plant and equipment	*12*	**4,134**	4,860
Right-of-use assets	*13*	**3,981**	–
Prepayment and deposits	*16*	**3,117**	–
Total non-current assets		**11,232**	4,860
Current assets			
Inventories	*14*	**1,022**	2,353
Trade receivables	*15*	**26,892**	52,199
Prepayments, deposits and other receivables	*16*	**14,632**	10,747
Time deposits with original maturities of more than three months	*17*	**–**	22,225
Cash and cash equivalents	*17*	**51,146**	88,407
Total current assets		**93,692**	175,931
Current liabilities			
Trade payables	*18*	**1,354**	1,120
Other payables, accruals and deposits from customers	*19*	**30,507**	34,526
Contract liabilities	*19*	**3,686**	4,136
Finance leases payables	*20*	**–**	118
Lease liabilities	*21*	**2,752**	–
Income tax payables		**712**	712
Due to related companies	*30(b)(i)*	**185**	188
Due to directors of the Company	*30(b)(ii)*	**2,433**	1,776
Total current liabilities		**41,629**	42,576
Net current assets		**52,063**	133,355
Total assets less current liabilities		**63,295**	138,215

Consolidated Statement of Financial Position (Continued)

At 31 March 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current liabilities			
Finance leases payables	20	–	82
Lease liabilities	21	1,550	–
Contract liabilities	19	75	49
Total non-current liabilities		1,625	131
Net assets		61,670	138,084
Equity			
Equity attributable to owners of the Company			
Share capital	24	72,576	72,576
Reserves	26	(10,906)	65,508
Total equity		61,670	138,084

The consolidated financial statements on pages 52 to 119 were approved and authorised for issue by the board of directors on 26 June 2020 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 2020

	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 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 and 1 April 2019	72,576	253,001*	300*	6,129*	–	5,226*	(199,148)*	138,084
Loss for the year	–	–	–	–	–	–	(70,682)	(70,682)
Other comprehensive loss for the year: Exchange differences on translation of foreign operations	–	–	–	–	–	(5,732)	–	(5,732)
Total comprehensive loss for the year	–	–	–	–	–	(5,732)	(70,682)	(76,414)
At 31 March 2020	**72,576**	**253,001***	**300***	**6,129***	**–**	**(506)***	**(269,830)***	**61,670**

* These reserve accounts comprise the consolidated deficit (2019: reserves) of approximately HK$10,906,000 (2019: HK$65,508,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	Notes	2020 HK$'000	2019 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(69,932)**	(36,206)
Adjustments for:			
Finance costs	*6*	**557**	9,589
Interest income from bank deposits	*4*	**(565)**	(1,677)
Depreciation of property, plant and equipment	*5, 12*	**1,982**	1,977
Depreciation of right-of-use assets	*5, 13*	**4,756**	–
Gain on disposal of financial assets at fair value through profit or loss	*4*	**–**	(5,391)
Provision for ECL allowance on trade receivables	*15*	**15,217**	4,910
Reversal of ECL allowance on trade receivables	*15*	**(2,014)**	(2,115)
Provision for slow-moving and obsolete inventories	*5, 14*	**37**	4
Operating cash flows before movements in working capital		**(49,962)**	(28,909)
Decrease/(increase) in inventories		**1,227**	(345)
Decrease/(increase) in trade receivables		**9,291**	(30,291)
Increase in prepayments, deposits and other receivables		**(7,749)**	(2,286)
Increase in amounts due to related companies		**8**	30
Increase/(decrease) in trade payables		**269**	(458)
(Decrease)/increase in other payables, accruals and deposits from customers		**(2,718)**	7,118
(Decrease) in contract liabilities		**(182)**	(14,709)
Cash used in operations		**(49,816)**	(69,850)
Income tax paid		**(750)**	(4)
Net cash used in operating activities		**(50,566)**	(69,854)
INVESTING ACTIVITIES			
Interest received	*4*	**565**	1,677
Purchases of items of property, plant and equipment	*12*	**(1,583)**	(4,533)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	12,891
Withdrawal of short term time deposits with original maturities of more than three months		**22,225**	74,088
Net cash generated from investing activities		**21,207**	84,123

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 March 2020

	Notes	2020 HK$'000	2019 HK$'000
FINANCING ACTIVITIES			
Redemption of convertible bonds	27	**–**	(64,800)
Payment of interests on convertible bonds	27	**–**	(3,544)
Repayments of principal element of lease liabilities	27	**(4,569)**	–
Payments of interest on lease liabilities	27	**(557)**	–
Repayments of finance leases payables	27	**–**	(267)
Payment of interests on finance leases	27	**–**	(12)
Advances from/(repayments to) directors of the Company	27	**657**	(1,974)
Net cash used in financing activities		**(4,469)**	(70,597)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		**(33,828)**	(56,328)
Cash and cash equivalents at beginning of year		**88,407**	153,336
Effect of foreign exchange rate changes, net		**(3,433)**	(8,601)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**51,146**	88,407
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Time deposits with original maturities of less than three months	17	**14,637**	–
Cash and bank balances	17	**36,509**	88,047
Cash and cash equivalents	17	**51,146**	88,047

1. CORPORATE AND GROUP INFORMATION

Longrun Tea Group Company Limited (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 address of registered office and the principal place of business of the Company are disclosed in the corporate information section to the annual report. During the year, the Company and its subsidiaries (collectively referred as the "Group") were involved in the trading and distribution of pharmaceutical products, tea products and other food products.

Information about subsidiaries of the Company

Particulars of the Company's subsidiaries are as follows:

Name of subsidiaries	Place of incorporation/ registration and operations	Issued ordinary share/ registered capital	Proportion of ownership interest held by the Company 2020	2019	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	– (2019: MOP25,000)	**–**	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 5)*	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 *(Note 4)*	Hong Kong	– (2019: HK$1)	**–**	100	Trading of tea products
雲南有你茶餐有限公司 (Yunnan Yunitea Company Limited) *(Notes 3 and 5)*	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 5)*	The PRC/Mainland China	RMB6,000,000	**100**	100	Dormant

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about 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) De-registered on 29 September 2019.

5) 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. 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.

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 2020 are consistent with those adopted in the consolidated financial statements for the year ended 31 March 2019, 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 new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments
HKFRS 9 Amendments	Prepayment Features with Negative Compensation
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015-2017 Cycle

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 16 as discussed below.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied HKFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for the year ended 31 March 2019 has not been restated – i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(i) New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components as a single lease component.

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

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

HKFRS 16 Leases (Continued)

(ii) As a lessee

The Group has lease contracts for various items of land, property and office equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for the exemption of the short-term lease. The Group has elected not to recognise right-of-use assets and lease liabilities for the lease, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with the lease of as an expense on a straight-line basis over the lease term.

(a) Significant accounting policies

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

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

HKFRS 16 Leases (Continued)

(ii) As a lessee (Continued)

(b) Impacts on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 April 2019. All these assets were assessed for any impairment based on HKAS 36 on that date.

The Group applied the following practical expedients on transition to HKFRS 16 for those leases which were previously classified as operating leases under HKAS 17.

– Applied the recognition exemption for leases for which the lease term ends within 12 months of the date of initial application.

– Excluded the initial direct costs from the measurement of the right-of-use assets.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(iii) Impacts on consolidated financial statements

The table below explains the difference between operating lease commitments disclosed at 31 March 2019 by applying HKAS 17 and lease liabilities recognised at 1 April 2019 by applying HKFRS 16:

	HK$'000
Operating lease commitments disclosed as at 31 March 2019	5,633
Less: Lease end within 12 months from the date of initial application	(2,253)
Add: Termination option reasonably certain not to be exercised by the Group	6,464
Add: Finance lease payables as at 31 March 2019	200
Lease liabilities before discounting as at 31 March 2019	10,044
Effect from discounting at incremental borrowing rate as at 1 April 2019*	(901)
Lease liabilities recognised as at 1 April 2019	9,143
Of which are:	
Current lease liabilities	4,505
Non-current lease liabilities	4,638
	9,143

* The range of incremental borrowing rates were from 5.13% to 11.01%.

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

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

HKFRS 16 Leases (Continued)

(iii) Impacts on consolidated financial statements (Continued)

Under the transition methods chosen, the Group has adopted the modified retrospective approach to recognise cumulative effect of the initial application of HKFRS 16 as an adjustment to the opening balance at 1 April 2019. Comparative information is not restated. Line items that were not affected by the changes have not been included in the following table. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The following table gives a summary of the opening balance adjustments recognised for the line items in the consolidated statement of financial position that have been impacted by HKFRS 16:

	At 31 March 2019 in accordance with HKAS 17	Impact of initial application of HKFRS 16	At 1 April 2019 in accordance with HKFRS 16
	HK$'000	HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	4,134	(63)	4,071
Right-of-use assets	–	9,006	9,006
Current liabilities			
Lease liabilities	–	(4,505)	(4,505)
Finance lease payables	(118)	118	–
Non-current liabilities			
Lease liabilities	–	(4,638)	(4,638)
Finance lease payables	(82)	82	–

During the year, the Group recognised the depreciation charges of approximately HK$4,756,000 (note 5) and interest expense of approximately HK$557,000 (note 6) in relation to those leases under HKFRS 16.

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 of the Company 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.

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 2020. 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 profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

(d) Impairment of non-financial assets

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 consolidated 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

Policies under HKFRS 16 applicable from 1 April 2019

Definition of a lease
A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Allocation of consideration to components of a contract
For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

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

(g) Leases (Continued)

Policies under HKFRS 16 applicable from 1 April 2019 (Continued)

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to leases of premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis.

Right-of-use assets
The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group;
- and an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities
At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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

(g) Leases (Continued)

Policies under HKFRS 16 applicable from 1 April 2019 (Continued)

Lease liabilities (Continued)
The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Policies under HKAS 17 applicable before 1 April 2019

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

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

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

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

(g) Leases (Continued)

Policies under HKAS 17 applicable before 1 April 2019 (Continued)

(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. 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 fair value through profit or loss ("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 consolidated 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 and points 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 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.

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

(h) Financial instruments (Continued)

Classification and subsequent measurement of financial assets

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 fair value through other comprehensive income ("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 (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

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. 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 (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 (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 consolidated 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 (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 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 consolidated 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 consolidated profit or loss, but is transferred to accumulated losses.

(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, accruals and deposits from customers, amounts due to related companies, amounts due to directors of the Company and lease liabilities. 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.

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

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.

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.

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

(i) Financial liabilities and equity instruments (Continued)

(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.

(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.

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

(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.

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.

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

(m) Income tax (Continued)

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) Revenue recognition

Revenue from contracts with customers

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)

(n) Revenue recognition (Continued)

Revenue from contracts with customers (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) Franchise income
The Group licenses franchise rights to its franchisee in specific period. Franchise income is recognised over time when its franchisee has 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 or service.

(o) 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.

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

(o) Share-based payments (Continued)

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.

(p) 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.

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

(q) 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.

(r) 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 HK$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK$ at exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HK$ 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.

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

(r) Foreign currencies (Continued)

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.

(s) 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, finance costs, gain on disposal of financial assets at FVTPL, as well as head office and corporate expenses.

Segment assets exclude time deposits with original maturities of more than three months, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude lease liabilities/finance lease payables, 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 2020			
Segment revenue:			
Sales to external customers	2,882	54,238	57,120
Other income	–	617	617
	2,882	54,855	57,737
Segment results	(7,875)	(46,079)	(53,954)
Reconciliation:			
Bank interest income			565
Corporate and other unallocated expenses			(15,986)
Finance costs			(557)
Loss before tax			(69,932)
As at 31 March 2020			
Segment assets	2,875	50,621	53,496
Reconciliation:			
Cash and cash equivalents			51,146
Corporate and other unallocated assets			282
Total assets			104,924
Segment liabilities	3,133	27,975	31,108
Reconciliation:			
Lease liabilities			82
Income tax payables			712
Corporate and other unallocated liabilities			11,352
Total liabilities			43,254
Year ended 31 March 2020			
Other segment information:			
Provision for obsolete inventories recognised in the consolidated statement of profit or loss	37	–	37
Provision for ECL allowance on trade receivables recognised in the consolidated statement of profit or loss	–	15,217	15,217
Reversal of ECL allowance on trade receivables recognised in the consolidated statement of profit or loss	–	(2,014)	(2,014)
Depreciation of property, plant and equipment	77	1,905	1,982
Depreciation of right-of-use assets	1,455	3,301	4,756
Capital expenditure*	5	1,578	1,583

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 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 cash equivalents			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 ECL allowance on trade receivables recognised in the consolidated statement of profit or loss	–	4,910	4,910
Reversal of ECL allowance on trade receivables recognised in the consolidated statement of profit or loss	–	(2,115)	(2,115)
Depreciation of property, plant and equipment	489	1,488	1,977
Capital expenditure*	38	4,495	4,533

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

3. SEGMENT INFORMATION (Continued)

(b) Geographical information

(i) Revenue from external customers:

	2020 **HK$'000**	2019 HK$'000
The PRC, excluding Hong Kong	**51,623**	86,682
Hong Kong	**2,882**	3,874
Elsewhere in Asia	**2,615**	4,072
United States of America	**–**	192
	57,120	94,820

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

(ii) Non-current assets:

	2020 **HK$'000**	2019 HK$'000
The PRC, excluding Hong Kong	**9,329**	4,622
Hong Kong	**1,903**	238
	11,232	4,860

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

(c) Information about major customers

None of the customer contributed 10% or more sales to the Group's revenue for the year ended 31 March 2020.

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.

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:

	2020 **HK$'000**	2019 HK$'000
Revenue from contract with customers within the scope of HKFRS 15		
Sale of goods, recognised at point in time	**57,120**	94,820
Other income within the scope of HKFRS 15		
Franchise income, recognised over time	**271**	927
Other income and gains from other sources		
Bank interest income	**565**	1,677
Gain on disposal of financial assets at FVTPL	**–**	5,391
Others	**346**	287
	911	7,355
Total other income and gains	**1,182**	8,282

5. LOSS BEFORE TAX

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

	Notes	2020 HK$'000	2019 HK$'000
Promotion and advertising expenses		**14,623**	5,098
Cost of inventories recognised as an expense		**32,681**	61,044
Depreciation of property, plant and equipment	*12*	**1,982**	1,977
Depreciation of right-of-use assets	*13*	**4,756**	–
Minimum lease payments under operating leases of offices and shops premises#		**3,098**	8,482
Auditors' remuneration			
– Audit services		**840**	880
– Non-audit services		**185**	200
Employee benefits expense (excluding directors' remuneration in note 7):			
Salaries, allowances and benefits in kind		**25,115**	23,368
Pension scheme contributions			
– Provision for current year		**3,083**	3,322
– Over-provision in prior year		**(1,961)**	(3,123)
		26,237	23,567
Provision for slow-moving and obsolete inventories*	*14*	**37**	4

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognition of right-of-use assets at 1 April 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (See note 2(a)). The amount for the year ended 31 March 2020 represented to the short term lease payments for the year ended 31 March 2020 under HKFRS 16 (note 13).

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

6. FINANCE COSTS

	Notes	2020 HK$'000	2019 HK$'000
Interest expense on lease liabilities	*27*	**557**	–
Interest expense on finance leases	*27*	**–**	12
Effective interest expense on convertible bonds	*22 & 27*	**–**	9,577
		557	9,589

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:

(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 2020				
Mr. Guo Guoqing	**192**	**–**	**–**	**192**
Mr. Lam Siu Hung	**228**	**–**	**–**	**228**
Mr. Kwok Hok Lun	**228**	**–**	**–**	**228**
Dr. Liu Zhonghua	**156**	**–**	**–**	**156**
	804	**–**	**–**	**804**
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

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 2020				
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)	**–**	**867**	**18**	**885**
	–	**5,781**	**54**	**5,835**
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

* 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 (2019: 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' 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 (2019: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2019: three) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

	2020 **HK$'000**	2019 HK$'000
Salaries, allowances and benefits in kind	**5,080**	4,067
Pension scheme contributions	**54**	54
	5,134	4,121

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

	Number of employees **2020**	2019
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	–
	3	3

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 March 2020 (2019: 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). 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.

	2020 **HK$'000**	2019 HK$'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	**750**	–
Total income tax expense for the year	**750**	714

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:

	2020 **HK$'000**	2019 HK$'000
Loss before tax	**(69,932)**	(36,206)
Tax at the statutory or applicable tax rate	**(15,468)**	(7,093)
Deductible temporary differences not recognised	**6**	26
Income not subject to tax	**(92)**	(222)
Expenses not deductible for tax	**3,394**	3,923
Tax losses not recognised	**12,160**	4,076
Under-provision in prior year	**–**	4
Withholding tax *(Note)*	**750**	–
Tax at the Group's effective rate	**750**	714

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.

Note: The withholding tax for the year of approximately HK$750,000 was incurred and paid for the dividend paid by a wholly-owned subsidiary to its immediate Hong Kong holding company.

10. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2020 (2019: 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$70,682,000 (2019: HK$36,920,000), and the weighted average number of ordinary shares of approximately 1,451,520,000 (2019: 1,451,520,000) in issue during the year.

For both years, 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.

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
At 1 April 2019:	2,546	1,787	767	1,101	6,809	13,010
Cost						
Accumulated depreciation and impairment	(2,206)	(1,258)	(705)	(1,101)	(2,880)	(8,150)
Effect of adoption of HKFRS 16	–	–	–	–	(63)	(63)
Net carrying amount (as restated)	340	529	62	–	3,866	4,797
At 1 April 2019, net of accumulated depreciation and impairment (as restated)	340	529	62	–	3,866	4,797
Additions	–	393	4	–	1,186	1,583
Depreciation provided during the year	(182)	(279)	(19)	–	(1,502)	(1,982)
Exchange realignment	(16)	(33)	–	–	(215)	(264)
At 31 March 2020, net of accumulated depreciation and impairment	142	610	47	–	3,335	4,134
At 31 March 2020:						
Cost	2,490	2,095	771	1,101	7,050	13,507
Accumulated depreciation and impairment	(2,348)	(1,485)	(724)	(1,101)	(3,715)	(9,373)
Net carrying amount	142	610	47	–	3,335	4,134

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
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

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.

13. RIGHT-OF-USE ASSETS

	Director and staff quarter HK$'000	Office premise HK$'000	Shop HK$'000	Warehouse HK$'000	Motor vehicle HK$'000	Total HK$'000
Costs:						
On 1 April 2019 recognised upon initial application of HKFRS 16	785	5,583	1,874	701	628	9,571
Exchange realignment	(2)	(228)	(104)	–	–	(334)
At 31 March 2020	783	5,355	1,770	701	628	9,237
Accumulated depreciation:						
On 1 April 2019 recognised upon initial application of HKFRS 16	–	–	–	–	565	565
Charge for the year	329	2,353	1,806	205	63	4,756
Exchange realignment	(1)	(28)	(36)	–	–	(65)
At 31 March 2020	328	2,325	1,770	205	628	5,256
Net carrying amount:						
At 31 March 2020	455	3,030	–	496	–	3,981

	2020 HK$'000
Fixed payments	5,001
Expense relating to short-term leases *(note 5)*	3,098
Total cash outflow for leases	8,099

During the year, the Group leases director and staff quarters, office premises, a shop, a warehouse and a motor vehicle for its daily operations. Lease contracts are entered into for fixed term of a range from 2 to 8 years.

14. INVENTORIES

	2020 HK$'000	2019 HK$'000
Trading goods	**523**	1,424
Finished goods	**371**	328
Work in progress	**–**	55
Raw materials	**–**	310
Packaging materials	**128**	236
	1,022	2,353

During the year ended 31 March 2020, the amount of write down of inventories to their net realisable value of approximately HK$37,000 (2019: HK$4,000), which is recognised in cost of sales in the consolidated statement of profit or loss.

15. TRADE RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	**63,571**	77,420
Less: ECL allowances	**(36,679)**	(25,221)
	26,892	52,199

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 90 days (2019: 30 to 360 days). 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 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 ECL allowances as at the end of the reporting period, based on the invoice dates, is as follows:

	2020 HK$'000	2019 HK$'000
Within 1 month	**4,658**	8,962
2 to 3 months	**5,523**	15,755
4 to 12 months	**16,576**	20,984
Over 12 months	**135**	6,498
	26,892	52,199

An aged analysis of the trade receivables, net of ECL allowance 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:

	2020 HK$'000	2019 HK$'000
Current (neither past due nor impaired)	**9,307**	23,788
Within 1 to 3 months overdue	**3,874**	5,680
Within 4 to 12 months overdue	**13,576**	19,526
Over 12 months overdue	**135**	3,205
	26,892	52,199

15. TRADE RECEIVABLES (Continued)

The movements in the provision for ECL allowances of trade receivables, which are measured at lifetime ECL and not credit impaired, are as follows:

	2020 **HK$'000**	2019 HK$'000
At beginning of year	**25,221**	23,924
Provision for ECL allowance recognised	**15,217**	4,910
Reversal of ECL allowance	**(2,014)**	(2,115)
Exchange realignment	**(1,745)**	(1,498)
At end of year	**36,679**	25,221

As at 31 March 2019, the Group's trade receivables included an amount of HK$1,597,000 due from 理想科技集團有限公司 (Ideality Technology Group Company Limited)[@] ("Ideality Group"), a related party of the Group which was beneficially owned as to 85.5% and 14.5% by Dr. Chiu Ka Leung ("Dr. Chiu") and Mr. Jiao Shaoliang ("Mr. Jiao"), respectively. Both Dr. Chiu and Mr. Jiao were executive directors and shareholders of the Company, while Dr. Chiu was also a substantial shareholder of the Company (note 30(a)(i)).

The balances due from Ideality Group were repayable on similar credit terms to those offered to the major customers of the Group and of which approximately HK$1,473,000 were past due at 31 March 2019. Based on past experience, the directors of the Company determined that no provision for impairment was necessary as at 31 March 2019 in respect of these balances as there were no significant change in credit quality of the balances. The balance was settled in full during the year. There was no outstanding balance as at 31 March 2020.

@ 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

	2020 HK$'000	2019 HK$'000
Current		
Prepayments for advertising expenses	**5,687**	3,425
Deposits and other receivables *(Note (a))*	**9,107**	7,491
Less: Credit loss allowances	**(162)**	(169)
	14,632	10,747
Non-current		
Prepayment for advertising expense *(Note (b))*	**2,809**	–
Deposits	**308**	–
	3,117	–

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

Note(b): Non-current prepayment for advertising expense of HK$2,809,000 represented the prepaid service fee for a celebrity endorsement.

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

	2020 HK$'000	2019 HK$'000
At beginning of year	**169**	178
Exchange realignment	**(7)**	(9)
At end of year	**162**	169

Included in the above provision for credit loss allowances of the prepayments, deposits and other receivables is a provision for individually impaired other receivables with an aggregate balance of approximately HK$162,000 (2019: HK$169,000). 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. CASH AND CASH EQUIVALENTS/TIME DEPOSITS WITH ORIGINAL MATURITIES OF MORE THAN THREE MONTHS

Cash and bank deposits comprise:–

	2020	2019
	HK$'000	HK$'000
Time deposits original maturities of		
– More than three months to maturity when placed	**–**	22,225
– Within three months to maturity when placed	**14,637**	–
Cash at bank and on hand	**36,509**	88,407
	51,146	110,632
Represented by:		
Time deposits with original maturities of more than three months	**–**	22,225
Cash and cash equivalents	**51,146**	88,407
	51,146	110,632

At 31 March 2020, cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$24,059,000 (2019: HK$76,596,000) while the remaining cash and cash equivalents are denominated in HK$. 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.

As at 31 March 2019, all the Group's time deposits with original maturities of more than three months of approximately HK$22,225,000 are denominated in HK$ 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 0.001% to 2.6% (2019: 0.13% to 1.90%) 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 cash equivalents and the time deposits approximate to their fair values.

18. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled on 90-day (2019: 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:

	2020 **HK$'000**	2019 HK$'000
Current and not past due	**88**	31
Within 1 to 3 months overdue	**718**	585
Within 4 to 12 months overdue	**70**	21
Over 12 months overdue	**478**	483
	1,354	1,120

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

	2020 **HK$'000**	2019 HK$'000
Yunnan Longrun Tea Group Company Limited@ ("LRTG") 雲南龍潤茶業集團有限公司	**244**	174
Fengqing Longrun Tea Company Limited@ ("FLRT") 鳳慶龍潤茶業有限公司	**7**	130
Changning Longrun Tea Company Limited@ ("CLRT") 昌寧縣龍潤茶業有限公司	**7**	12
Yunnan Longfar Pharmaceutical Company Limited@ ("YNLF") 雲南龍發製藥股份有限公司	**32**	302
	290	618

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 (2019: 90-day) terms.

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

19. OTHER PAYABLES, ACCRUALS AND DEPOSITS FROM CUSTOMERS/ CONTRACT LIABILITIES

	2020 HK$'000	2019 HK$'000
Accruals *(Note)*	**19,866**	23,127
Deposits from customers	**8,583**	9,403
Other payables	**2,058**	1,996
	30,507	34,526
Contract liabilities – current portion	**3,686**	4,136
Contract liabilities – non-current portion	**75**	49
	3,761	4,185

Contract liabilities are expected to be recognised as revenue as follows:

	2020 HK$'000	2019 HK$'000
Revenue expected to be recognised		
Within one year	**3,686**	4,136
In the second to fifth years	**75**	49
	3,761	4,185

Note: Accruals mainly represents accrued advertising expenses and other PRC taxes of approximately HK$8,171,000 (2019: HK$8,171,000) and HK$5,278,000 (2019: HK$6,137,000) respectively.

20. FINANCE LEASES PAYABLES

As at 31 March 2019, 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. Following the adoption of HKFRS16 on 1 April 2019, the finance lease payables were transferred to lease liabilities.

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

21. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 March 2020		1 April 2019		31 March 2019	
	Present value of minimum lease payments HK$'000	**Total minimum lease HK$'000**	Present value of minimum lease payments HK$'000	Total minimum lease HK$'000	Present value of minimum lease payments HK$'000	Total minimum lease HK$'000
Amounts payable:						
Within one year	**2,752**	**3,023**	4,688	5,259	–	–
In the second year	**1,550**	**1,598**	2,838	3,120	–	–
In the third to fifth years	**–**	**–**	1,617	1,667	–	–
	4,302	**4,621**	9,143	10,046	–	–
Less: future finance charges		**(319)**		(903)		–
Present value of lease liabilities		**4,302**		9,143		–
Portion classified as current liabilities		**(2,752)**		(4,505)		–
Non-current portion		**1,550**		4,638		–

The Group has leases for director quarter, staff quarter, office premises, a shop, a warehouse and a motor vehicle. These leases are reflected on the consolidated statement of financial position as right-of-use assets and lease liabilities. The Group classifies its right-of-use assets in a consistent manner to its director quarter, staff quarter, office premises, a shop, a warehouse and a motor vehicle (Note 13).

The table below describes the nature of the Group's leasing activities recognised as right-of-use asset in the consolidated statements of financial position:

Right-of-use assets	**No. of leases**	**Remaining lease term (months)**
Director quarter and staff quarter	2	1 – 18
Office premises	5	5 – 23
A warehouse	1	17
A motor vehicle	1	8

The range of incremental borrowing rate is from 5.13% to 11.01% per annum.

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 were matured on the second anniversary of the date of issue (the Maturity Date") and the conversion price was HK$0.27 per share subject to anti-dilutive adjustments. Neither the Company nor the holders of the Convertible Bond might demand early redemption. And the Convertible Bond bore interest at 5.5% per annum on the outstanding principal amount and would be payable semi-annually in arrears until the Convertible Bonds were 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 were 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 were 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 was estimated with reference to the yields of market instruments with similar credit qualities and time to maturities, and was 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:

	2020 **HK$'000**	2019 HK$'000
Equity component		
At the beginning of the year	–	12,549
Redemption of Convertible Bonds	–	(12,549)
At the end of the year	–	–

	Note	**2020** **HK$'000**	2019 HK$'000
Liability component			
At the beginning of the year		–	58,767
Effective interest expense	*6*	–	9,577
Interest paid		–	(3,544)
Redemption of Convertible Bonds		–	(64,800)
At the end of the year		–	–

22. CONVERTIBLE BONDS (Continued)

For the year ended 31 March 2019, the effective interest rate of the liability component on initial recognition and the subsequent measure of interest expense on the Convertible Bonds is 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:

	2020 HK$'000	2019 HK$'000
Tax losses	**248,208**	167,007
Deductible temporary differences	**27**	348
	248,235	167,355

The Group has tax losses arising in Hong Kong of approximately HK$162,583,000 (2019: HK$114,916,000) 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.

On 12 January 2020, IRD issued a statement of loss for the assessment year of 2018/2019 of the Company and agreed the loss carried forward was approximately HK$48,154,000.

The Group also has tax losses arising in the PRC of approximately HK$85,625,000 (2019: HK$52,091,000) that will expire from year 2021 to 2025 (2019: year 2020 to 2024) 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.

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$24,228,000 at 31 March 2020 (2019: HK$59,228,000).

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

24. SHARE CAPITAL

	2020 HK$'000	2019 HK$'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 2018, 31 March 2019 and 31 March 2020	**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.

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.

25. EQUITY COMPENSATION PLANS (Continued)

Share Option Scheme (Continued)

The offer of a grant of share options under the Scheme may be accepted within 28 days from the date of offer upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determined by the directors 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. All share options are exercisable from 25 November 2016 to 24 November 2021 (both days inclusive).

The following share options were outstanding under the Scheme:

	Weighted average exercise price HK$ per share	Number of options
At 1 April 2018, 31 March 2019 and 31 March 2020	**0.3**	**51,400,000**

No share options were granted, exercised or lapsed under the Scheme during the year ended 31 March 2020 (2019: 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(r).

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	**Lease liabilities** HK$'000 *(note 21)*	**Liability component of convertible bonds** HK$'000 *(note 22)*	**Finance leases payables** HK$'000 *(note 20)*	**Due to directors of the Company** HK$'000	**Total** HK$'000
At 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
Effect of adoption of HKFRS 16		9,143	–	(200)	–	8,943
At 1 April 2019		**9,143**	**–**	**–**	**1,776**	**10,919**
Financing cash flows						
– (Repayments)/advance from		**(4,569)**	**–**	**–**	**657**	**(3,912)**
– Interest paid		**(557)**	**–**	**–**	**–**	**(557)**
Interest expenses	6	**557**	**–**	**–**	**–**	**557**
Exchange realignment		**(272)**	**–**	**–**	**–**	**(272)**
At 31 March 2020		**4,302**	**–**	**–**	**2,433**	**6,735**

28. CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 March 2020 (2019: Nil).

29. OPERATING LEASE COMMITMENTS

The Group as lessee

Operating lease payments represent rentals payable by the Group for certain of its premises. The operating lease commitment as at 31 March 2020 presented below represents the future aggregate minimum lease payments for the leases with lease terms less than one year. Leases with lease term over one year have been recorded as lease liabilities as at 31 March 2020 under newly adopted accounting standard HKFRS 16 (note 2). The operating lease commitment as at 31 March 2019 presented below represents the future aggregate minimum lease payments under all non-cancellable operating leases.

	2020 **HK$'000**	2019 HK$'000
Within one year	**140**	3,924
In the second to fifth years, inclusive	**–**	1,709
	140	5,633

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	2020 HK$'000	2019 HK$'000
Sales of tea products to:			
Ideality Group	*(i), (vi)*	**166**	140
YNLF	*(ii), (vi)*	**–**	68
		166	208
Purchases of tea products from:			
CLRT^	*(iii), (vi)*	**1,987**	10,464
FLRT^	*(iii), (vi)*	**2,906**	13,925
LRTG^	*(v), (vi)*	**3,961**	31,550
Purchases of pharmaceutical products from:			
YNLF	*(ii), (vi)*	**270**	1,215
		9,124	57,154
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

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. On 11 May 2020, Dr. Chiu and Mr. Jiao resigned as executive directors of YNLF.

(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 sales of tea products and the purchases of tea products entered into by the Group during the year ended 31 March 2020 also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

@ Official name of this entity is in Chinese. The English translation of the name 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 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

	2020 HK$'000	2019 HK$'000
Short term employee benefits	**11,665**	10,388
Post-employment benefits	**108**	108
	11,773	10,496

31. FINANCIAL INSTRUMENTS BY CATEGORY

The categories of financial instruments of the Group as at 31 March 2020 and 2019 are as below:

	2020 HK$'000	2019 HK$'000
Financial assets		
At amortised cost	**87,291**	170,153
Financial liabilities		
At amortised cost	**38,781**	37,810

@ Official 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

The management has assessed that the fair values of financial assets and financial liabilities including cash and cash equivalents, 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 lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

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 cash equivalents, 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 38.8% (2019: 37.5%) 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 on trade balances based on provision matrix using simplified approach and estimated loss rates which are the rate estimated based on historical settlement data and taking into account time value of money and have been adjusted for forward-looking information that is available without undue cost or effort.

With respect to credit risk arising from the other financial assets of the Group, comprising cash and cash equivalents, time deposits with original maturities of more than three months 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.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

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 2020 using lifetime ECL approach (not credit impaired).

	2020		2019	
	ECL rates	**Gross amount of trade receivables HK$'000**	ECL rates	Gross amount of trade receivables HK$'000
Current (neither past due nor impaired)	**8.8%**	**10,200**	3.1%	24,550
Within 1 to 3 months overdue	**18.7%**	**4,766**	4.7%	5,958
Within 4 to 12 months overdue	**31.0%**	**19,669**	10.8%	21,900
Over 12 months overdue	**99.5%**	**28,936**	87.2%	25,012
		63,571		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.

Changes in the ECL allowance for trade receivables are mainly due to:

	2020 Increase/ (decrease) in lifetime ECL (non-credit impaired) HK$'000	2019 Increase/ (decrease) in lifetime ECL (non-credit impaired) HK$'000
Increase in trade receivables	**15,217**	4,910
Settlement of impaired trade receivables	**(2,014)**	(2,115)

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of finance leases payables and convertible bonds. In addition, banking facilities have been put in place for contingency purpose.

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:

	On demand or within 1 year HK$'000	Over 1 year but within 2 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 March 2020				
Trade payables	**1,354**	**–**	**1,354**	**1,354**
Other payables, accruals and deposits from customers	**30,507**	**–**	**30,507**	**30,507**
Due to related companies	**185**	**–**	**185**	**185**
Due to directors of the Company	**2,433**	**–**	**2,433**	**2,433**
Lease liabilities	**3,023**	**1,598**	**4,621**	**4,302**
	37,502	**1,598**	**39,100**	**38,781**
At 31 March 2019				
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

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 leases liabilities (2019: finance leases payables) as the interest rates underlying Group's leases liabilities (2019: finance leases payables) 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 year (2019: Nil).

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:

	2020 **HK$'000**	2019 HK$'000
Total liabilities	**43,254**	42,707
Total equity	**61,670**	138,084
Gearing ratio	**70.1%**	30.9%

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	**2020** **HK$'000**	2019 HK$'000
Non-current assets			
Property, plant and equipment		**13**	20
Investments in subsidiaries		**56,296**	117,242
Right-of-use assets		**700**	–
Total non-current assets		**57,009**	117,262
Current assets			
Prepayments, deposits and other receivables		**270**	270
Due from subsidiaries		**11,474**	11,413
Total current assets		**11,744**	11,683
Current liabilities			
Accruals		**9,916**	10,624
Lease liabilities		**577**	–
Due to a subsidiary		**62,075**	46,144
Due to directors of the Company	*30(b)(ii)*	**1,436**	778
Total current liabilities		**74,004**	57,546
Net current liabilities		**(62,260)**	(45,863)
Total assets less current liabilities		**(5,251)**	71,399
Non-current liabilities			
Lease liabilities		**168**	–
Net (liabilities)/assets		**(5,419)**	71,399
Equity			
Issued share capital		**72,576**	72,576
Reserves *(note)*		**(77,995)**	(1,177)
Total equity		**(5,419)**	71,399

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 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 and 1 April 2019	253,001	46,999	6,129	–	(307,306)	(1,177)
Loss and total comprehensive loss for the year	–	–	–	–	(76,818)	(76,818)
At 31 March 2020	**253,001**	**46,999**	**6,129**	**–**	**(384,124)**	**(77,995)**

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:

HKFRS 17	Insurance Contracts[3]
HKAS 1 (Revised) and HKAS 8 Amendments	Definition of Material[1]
HKAS 28 and HKFRS 10 amendments (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 3 (Revised) Amendments	Definition of a Business[5]
HKFRS 9, HKAS 39 and HKFRS 7 Amendments	Interest Rate Benchmark Reform[1]
HKFRS 16 Amendments	Leases[2]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 June 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company anticipate that the application of all new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

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				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**57,120**	94,820	81,670	123,690	217,659
(Loss)/profit before tax	**(69,932)**	(36,206)	(33,887)	(32,167)	4,799
Income tax (expense)/credit	**(750)**	(714)	(15)	(264)	(2,385)
(Loss)/profit for the year	**(70,682)**	(36,920)	(33,902)	(32,431)	2,414
Attributable to:					
Owners of the Company	**(70,682)**	(36,920)	(33,902)	(32,431)	2,414

ASSETS AND LIABILITIES

	As at 31 March				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**104,924**	180,791	297,646	341,680	324,424
Total liabilities	**(43,254)**	(42,707)	(113,436)	(137,404)	(98,272)
	61,670	138,084	184,210	204,276	226,152