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# Wai Yuen Tong Medicine Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code : 897

# 2018 ANNUAL REPORT

# Contents

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Tang Ching Ho, *SBS, JP, Chairman and Managing Director*

Mr. Chan Chun Hong, Thomas

Ms. Tang Mui Fun

Ms. Tang Wai Man (Appointed on 1 April 2018)

### Independent Non-executive Directors

Mr. Leung Wai Ho, *MH*

Mr. Siu Man Ho, Simon

Mr. Cho Wing Mou

Mr. Li Ka Fai, David

## AUDIT COMMITTEE

Mr. Li Ka Fai, David, *Chairman*

Mr. Leung Wai Ho, *MH*

Mr. Siu Man Ho, Simon

Mr. Cho Wing Mou

## REMUNERATION COMMITTEE

Mr. Siu Man Ho, Simon, *Chairman*

Mr. Leung Wai Ho, *MH*

Mr. Cho Wing Mou

Mr. Tang Ching Ho, *SBS, JP*

Ms. Tang Wai Man

## NOMINATION COMMITTEE

Mr. Cho Wing Mou, *Chairman*

Mr. Leung Wai Ho, *MH*

Mr. Siu Man Ho, Simon

Mr. Tang Ching Ho, *SBS, JP*

Ms. Tang Wai Man

## EXECUTIVE COMMITTEE

Mr. Tang Ching Ho, *SBS, JP, Chairman*

Mr. Chan Chun Hong, Thomas

Ms. Tang Mui Fun

Ms. Tang Wai Man

## AUTHORISED REPRESENTATIVES

Mr. Tang Ching Ho, *SBS, JP*

Mr. Chan Chun Hong, Thomas

## COMPANY SECRETARY

Ms. Mak Yuen Ming, Anita

## LEGAL ADVISERS

DLA Piper Hong Kong

Gallant

## AUDITORS

Ernst & Young

## PRINCIPAL BANKERS

The Bank of East Asia, Limited

DBS Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

## REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

# CORPORATE INFORMATION

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3101, 31/F., Skyline Tower
39 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## BOARD LOT

5,000 shares

## INVESTOR RELATIONS

Email: contact@waiyuentong.com

## HOMEPAGE

http://www.wyth.net

## STOCK CODE

897

## AWARDS (2017-2018)

# WAI YUEN TONG MEDICINE

**5 Years+ Consumer Caring 2018**

GS1 Hong Kong

**Hong Kong Pharmacy's Top 20 Most Popular Brand Award 2017**

Hong Kong General Chamber of Pharmacy

**Service & Courtesy Award 2017**

Hong Kong Retail Management Association (HKRMA)



**Wai Yuen Tong Hou Tsao Powder — No. 1 selling in Hong Kong for 5 consecutive years**

Nielsen MarketTrack Service data shows that Wai Yuen Tong ranked first in both sales value (HK$) and sales volume (ML/PC/GM/CC), in the Hou Cho Powder Segment of Cough Remedy category for 5 consecutive years from June 2013 to May 2018, for ScanTrack Key Account Supermarkets, CVS and Drug Stores in Hong Kong. (Copyright© 2018, The Nielsen Company)

**5 Years Plus Caring Company**

The Hong Kong Council of Social Service

5 years+ 商界展關懷 caringcompany®
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

## AWARDS (2017-2018)

# LUXEMBOURG MEDICINE

**No. 1 selling of Madame Pearl's Product Series for 8 consecutive Years**

Based in part on data reported by Nielsen through its Retail Index Service for the Cough Syrup category for 8 years from January 2010 to December 2017, for Key Account Supermarkets, CVS and Drug Stores in Hong Kong. (Copyright © 2018, The Nielsen Company)

**Madame Pearl's Cough Syrup F2 - Hong Kong Pharmacy's Top 20 Most Popular Brand Award 2017**

Hong Kong General Chamber of Pharmacy

**10 Years Plus Caring Company**

The Hong Kong Council of Social Service

**No. 1 selling of Pearl's MosquitOut Product Series for 7 consecutive Years**

Based in part on data reported by Nielsen through its ScanTrack Service for the Mosquito Repeller (for human skin) category for 7 years from November 2010 to October 2017, for Key Account Chain Supermarkets, Chain Convenience Stores and Chain Drug Stores in Hong Kong. (Copyright © 2018, The Nielsen Company)

# CHAIRMAN'S STATEMENT


> We will continue to play an integral role and contribute to the protection of people's health under our mission. I hereby express my heartfelt gratitude to our people for their contributions.

# CHAIRMAN'S STATEMENT

Dear Shareholders,

## BUSINESS REVIEW

In 2017, despite the economy and consumption environment of Hong Kong recovered gradually, the business environment remained severe. Due to influence by different factors, Wai Yuen Tong Medicine Holdings Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**") recorded a loss in the year under review. As compared to previous year, despite Chinese pharmaceutical and health food products achieved a substantial revenue growth, Western pharmaceutical segment has been navigating a complex transition and resulted a decrease in revenue. During the year, the Group flexibly adjusted the operating strategies to maintain stable development of its core businesses.

Wai Yuen Tong has a history of over 120 years. Under the philosophy of "Preparing Medicine With Dedication, Growing Strong With Reputation", the management team and employees make concerted effort to lead "Wai Yuen Tong" into a new era. Up to this day, the Group is world-renowned with "Wai Yuen Tong", a widely-known Chinese medicine brand held through Wai Yuen Tong Medicine Company Limited ("**WYT Medicine**", together with its subsidiaries the "**WYT Medicine Group**"), and "Madame Pearl's" and "Pearl's", famous Western medicine and healthcare brands held through Luxembourg Medicine Company Limited ("**Luxembourg Medicine**", together with its subsidiaries, the "**Luxembourg Medicine Group**").

The Group continuously implements strict quality control. In early 2017, the Group's new good manufacturing practice ("**GMP**") factory with production lines of both traditional Chinese medicine ("**TCM**") and Western pharmaceutical medicines in Yuen Long Industrial Estate in Hong Kong (the "**Yuen Long Factory**") was put into production. It has a total of six production lines for Chinese medicines and three for Western medicines, which have been constructed and operated in accordance with the standard of the "Pharmaceutical Inspection Co-operation Scheme" ("**PIC/S**"), the most stringent manufacturing practice regulation with worldwide recognition, and guarantees "100% made in Hong Kong", thus strengthening customer confidence. After the "Wai Yuen Tong" new GMP factory was granted the certificate of GMP for Proprietary Chinese Medicine from the Chinese Medicine Council of Hong Kong and the standard certificate of the PIC/S by the Therapeutic Goods Administration ("**TGA**") of Australia, the new GMP factory of Luxembourg Medicine was also granted the GMP license by the Department of Health of Hong Kong and the PIC/S standard certificate for which more stringent requirements need to be satisfied, in the second half of 2017. Through advanced equipment in the new factories, the Group continues to carry out research and development of pharmaceutical aqua products, a core business, further promote product diversity and accelerate development of new sales channels. The Group will continue to enhance publicity and promotion, increase the market penetration rate of products, and especially focus on key products including upper airway product series under "Madame Pearl's" and personal care product series under "Pearl's", which retain No.1 spots in the market.

The Group actively responds to market demand and opportunities, enhances innovation and research and development, diversifies product mix and expands sources of income. In response to great demand for cardiovascular medicines in the Hong Kong market, "Angong Niuhuang Wan", a high value-added product newly developed by the Group, was launched into the market at the end of 2017 and has been well accepted by the public. Products in the same series, such as "Angong Jiangya Wan", are planned to be launched in 2018. At present, the "Wai Yuen Tong" brand has over 60 shops in Hong Kong, approximately 40 of which offer TCM consultation service by experienced Hong Kong registered Chinese medicine practitioners, which represents the largest resident Chinese medicine practitioner team in Hong Kong.

# CHAIRMAN'S STATEMENT

In mainland China, the Group completed the renovation of a factory building, and contracted out the production to a GMP licensed manufacturer on a temporary basis, to handle pre-production processing of Chinese herbal for the Group. With the Group's strategy of continued expansion of the TCM plantation base in China, the development of Chinese herbal business of the Group will be further promoted.

The rapid development of network economy promotes booming development of e-commerce and change of the consumption model of the public. The Group keeps pace with the times and continuously explores new e-commerce, cross-border e-commerce sales channels and brand promotion methods. Through a business-to-customer (B2C) platform, it enhances customer reach and interaction. The Group launched the mobile apps of "Wai Yuen Tong" for e-commerce and customer relationship management (CRM) in August 2017. The mobile apps includes functions of immediate appointment for TCM diagnosis and treatment, and quick tongue diagnosis service, which shortens the waiting time and provides convenience for busy young customers. In addition, the Group enhances integration of marketing and promotion channels in Hong Kong and mainland China, so as to improve marketing benefits and lower operating costs. During the year, the Group and its business partners launched a cross-border offline-to-online (O2O) platform, on which Chinese consumers can purchase Hong Kong-made Chinese medicines and healthcare products of "Wai Yuen Tong" through the apps. It is currently implemented at retail stores in mainland China and is expected to be expanded to more cross-border O2O franchised stores and consultant members in the future. In response to market development, the Group also unitises online shopping platforms, through opening flagship stores on TMall Global, JD and SENDTOU and operating "Wai Yuen Tong" online shop, to further expand the customer base and strengthen the interaction and communication with customers, which at the same time also deepened the penetration rate of products and improved the brand image of "Wai Yuen Tong".

In terms of brand promotion, "Wai Yuen Tong" continues to introduce chic and modern elements. During the year, for the first time, the Group invited Ms. Gigi Leung Wing-kei, a Hong Kong singer and Mr. Ray Lui Leung-wai, a legendary actor, both of whom are well-known in mainland China, Hong Kong, Macau and Taiwan, to respectively act as product ambassadors of "Wall-Broken Ganoderma Lucidum Spores (Upgraded Formula) (破壁靈芝孢子(升級配方))" and "Angong Niuhuang Wan (安宮牛黃丸)", and sponsored GIGI Goodtime Worldtour Hong Kong, so as to enhance the brand awareness and image.

While expanding businesses, the Group has undertaken the corporate social responsibility and made earnest efforts for the community. During the year, the Group organised free TCM consultations, Orbis charity product sale and orphanage home visit. The Group actively motivated its employees and their family members to take part in charitable outdoor sports activities that foster physical and mental health. It also supported Southern District Recreation and Sports Association to promote community recreation and sports events. The Group is an active advocator and supporter to academic interaction. During the year, the Group and Nanjing University of Chinese Medicine ("**NJUCM**") jointly established an industry, education and research base, further facilitating TCM expertise exchanges between mainland China and Hong Kong, technology research and development, promoting TCM to the globe and fostering talents.

# CHAIRMAN'S STATEMENT

## OUTLOOK

In recent years, mainland China has strongly supported the development of TCM and has successively published a number of health reform measures, to encourage industry innovation, research and development, and to strengthen industry regulations. The national policy for Guangdong-Hong Kong-Macau Greater Bay Area, as a key development area, also provides a bright prospect for TCM development. The Group will take Hong Kong as a platform and seize the good opportunity for entry of TCM into the mainland China market. In Hong Kong, the first TCM hospital is about to be completed, which represents greater support to the TCM industry from the Hong Kong government. This is conducive to TCM scientific research and industrial development. Therefore, the Group will actively support the national blueprints for mid-and-long-term TCM development. It is committed to giving full play to competitive edges including the advantage of "Wai Yuen Tong" as a century-old brand, world-class quality monitoring procedures and production capacity enhancement. It will seize development opportunities and potential business opportunities.

The global economy outlook is expected to be cautiously optimistic in 2018. Mainland China's economy is stable with a year-on-year GDP growth of 6.9% in the first quarter. Tourist arrivals to Hong Kong is anticipated to see a further increase, with local consumer confidence gradually recovered, it is expected that the retail industry in Hong Kong will be continuously benefited.

In terms of research and development of new products, with commissioning of the Yuen Long Factory, the Group is more capable in developing high value-added products to flexibly cater for the market needs. Following the well-regarded launch of "Angong Niuhuang Wan" last year, it will successively launch other products in the same series such as "Angong Jiangya Wan" in this year. In addition, given the increasing market demand for metropolis health products and men's healthcare products, the Group will launch various Chinese medicines and healthcare products for men's and metropolis series in this year, including "Golden Dura-Gizer (金裝剛勁)", "Golden Deer's Tail (金裝鹿尾巴)", "Uricid Aid Capsules (降酸通膠囊)" and "Gastrointestinal Pills (整腸正氣丸)", so as to further increase its market share. The fully automated equipment in the new factories is also conducive for the Group to reduce overall operating costs and improve production efficiency. The Group will continue to identify TCM talents, and recruit additional frontline employees and experienced Chinese medicine practitioners, so as to provide better TCM healthcare products and services.

In face of the challenges and opportunities that rest in future, we will continue to move ahead in a pragmatic and proactive manner. We will continue to strengthen cost control, improve the operating efficiency, better coordinate promotion, distribution and pricing strategies, give full play to the synergy of medicines and healthcare products, and at the same time, identify suitable merger and acquisition opportunities, diversify existing business portfolios, so as to create more value for shareholders.

## APPRECIATION

I hereby extend my particular appreciation to our business partners and shareholders for their long-lasting support, and express my heartfelt gratitude to our people for their contributions. I hope that by staying true to our original aspiration and vision, our brand value of "Wai Yuen Tong" would be realised to its fullest extent, and we will continue to play an integral role and contribute to the protection of people's health under our mission, thereby enabling "Wai Yuen Tong" to shine in the local and global markets.

**Tang Ching Ho**

*Chairman and Managing Director*

Hong Kong, 20 June 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

"As a century-old well-established brand and a Hong Kong brand, we will continue to develop its core business and take up the challenges with flexibility, innovative ideas and operational mechanisms."

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL RESULTS

For the year ended 31 March 2018, the Group's revenue increased by approximately 14.5% to approximately HK$845.8 million (2017: approximately HK$738.4 million). The Group recorded a loss attributable to owners of the parent amounting to approximately HK$115.6 million (2017: approximately HK$93.3 million), representing an increase in loss attributable to owners of approximately 23.9% as compared with corresponding period of last year. The deterioration in results was mainly attributable to an one-off gain on disposal of a property, plant and equipment recorded in 2017, impairment losses in property, plant and equipment, an increase in overheads in the Group's factories and a loss on deemed partial disposal of equity interests in an associate, as offsetting by the improvement effects on the net change in fair value of equity investments at fair value through profit or loss and the net change in fair value on investment properties for the year.

## DIVIDENDS

The Board does not recommend the payment of any final dividend for the year ended 31 March 2018 (2017: Nil). No interim dividend was made for the six months ended 30 September 2017 (30 September 2016: Nil).

## BUSINESS REVIEW

### (1) Chinese Pharmaceutical and Health Food Products

During the year, the revenue increased by 21.1% year-on-year to approximately HK$700.2 million.

As the economy and consumption environment of Hong Kong recovered gradually, the overall retail sales in Hong Kong increased by 2.2% year-on-year in 2017, as compared to 8.1% decrease in 2016. "Wai Yuen Tong", as one of leading health product brands in Hong Kong, has been trusted by many consumers. During the year, due to recovery of the retail market in Hong Kong, the revenue from the Chinese pharmaceutical and health food products segment increased correspondingly. Meanwhile, a rise in general public's awareness of health increases the demand for health food products; and the confidence of consumers from mainland China in the quality of Hong Kong-made health food products and TCM together drive sales of the Group.

As the Group continued to widen the distribution network of the products, there was a modest growth in sales channels including key accounts during the current year. The "Wai Yuen Tong" brand represents one of the largest TCM retail network in Hong Kong. At present, it has over 60 shops in Hong Kong, approximately 40 of which provide TCM services.

The Group continuously implements the comprehensive quality assurance procedure. The TCM and Western medicine GMP factory of the Group in Yuen Long Industrial Estate was formally completed in early 2017 and put into production in April of 2017, which significantly improves the research and development capacity of the Group and diversifies the existing product mix so that the Group can seize market opportunities and expand sources of income. In response to the enormous demand for cardiovascular medicines in the Hong Kong market, "Angong Niuhuang Wan", a high value-added product newly developed by the Group, was launched into the market at the end of 2017 and has been well accepted by the public.

In terms of brand promotion, "Wai Yuen Tong" keeps pace with the times and carries out optimisation projects for many Wai Yuen Tong retail shops which introduces fashionable elements and modern elements. Meanwhile, it continues to launch diversified promotion activities, so as to improve the brand awareness and image. During the year, for the first time, the Group invited Ms. Gigi Leung Wing-kei, a Hong Kong singer and Mr. Ray Lui Leung-wai, a legendary actor, both of whom are well-known in mainland China, Hong Kong, Macau and Taiwan, to act as product ambassadors of "Wall-Broken Ganoderma Lucidum Spores (Upgraded Formula) (破壁靈芝孢子(升級配方))" and "Angong Niuhuang Wan (安宮牛黃丸)". The "Wai Yuen Tong Infant Care Classroom" also carries out a series of activities to promote baby series of products. In addition to traditional advertising platforms such as TV, newspapers and magazines, the Group provides product discounts and uploads health tips from registered Chinese medicine practitioners from time to time through social media, so as to build word-of-mouth and achieve brand influence.

# MANAGEMENT DISCUSSION AND ANALYSIS

In order to support brand rejuvenation, the Group launched the mobile apps of "Wai Yuen Tong" for e-commerce and customer relationship management (CRM) in August 2017, so as to strengthen its reach to the young customer base. The mobile apps includes functions of immediate appointment for TCM diagnosis and treatment, and quick tongue diagnosis which is pioneer in Hong Kong and serves as free preliminary assessment. The apps has been well-received since the launch. During the year, "Wai Yuen Tong" also enhanced integration of marketing channels in Hong Kong and mainland China, and together with business partners launched a cross-border offline-to-online (O2O) platform, on which Chinese consumers can purchase Hong Kong-made Chinese patent medicines and health products of "Wai Yuen Tong" through the apps, thus improving operating benefit. The online shopping platform of the Group continues to improve product promotion efficiency. Big data collected are conducive to the analysis of customers' buying habits and preferences. During the year, the Group recorded stable revenue from sales on the online shopping platform.

## (2) Western Pharmaceutical and Health Food Products

The turnover for the current year decreased by approximately 9.3% to approximately HK$135.9 million compared to last year.

Although the economy and consumption environment of Hong Kong recovered gradually, the overall turnover for two main project series of the Group declined, due to influence by different factors. The shipment volume of "Madame Pearl's Cough Drugs" needs to be controlled to align with commissioning of new factories, due to transition to production by the new factory and compliance with the Department of Health of Hong Kong. Although "Pearl's" mosquito repellent products were sold well in Hong Kong, there were a great number of similar products entering the market during the year, which intensified channel and price competition. Sales of "Pearl's" products stably ranked first in the market, in spite of slowdown in the sales under pressure. The Group recorded a slight decrease in sales of products in "Madame Pearl's Professional Series" including "Madame Pearl's" BreathEasy Patch.

In response to fierce competition in the industry and seasonality of tourist arrivals to Hong Kong, the Group adjusts the marketing strategy in a timely manner, focuses on development of new distribution channels, optimises the product mix, expands the distribution network and maintains the overall operating income. The Group will continue to enhance publicity and promotion, further diversify sales channels, increase the market penetration rate of products, and especially focus on key products including upper airway product series under "Madame Pearl's" and personal care product series under "Pearl's". It retains the No. 1 spot in terms of sales of the two series in the market, thus facilitating increase in the sales revenue of the Group.

The Group continuously enhances research and development of products and diversifies product series to meet market demands. In September 2017, the new GMP factory of Luxembourg Medicine was granted the GMP certificate by the Department of Health of Hong Kong and the PIC/S certificate for which more stringent requirements need to be satisfied. Through advanced equipment of new factories, the Group continues to carry out research and development of pharmaceutical aqua products, a core business. It will further promote product diversity and accelerate development of new sales channels.

During the year, full impairment provision of HK$7.6 million of the goodwill relating to the Western Pharmaceutical Business was made.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (3) Property Investment

On 7 February 2018, Guidepost Investments entered into an agreement with, East Run and Wang On Properties Limited (Stock Code: 1243) ("**WOP**") for the acquisition of the entire issued share capital and their respective shareholder's loans in four target companies, which is holding a retail property located in Causeway Bay, Shau Kei Wan, Mong Kok and Tai Po, respectively for a total cash consideration of HK$350 million, completion of which took place on 25 April 2018. Upon completion of the acquisition, the Company intends to maintain the properties for self-use. The acquisition presents an opportunity for the Group not only to further entrench and expand its business presence at strategic retail locations, but also to reduce its rental burden, as the properties are situated at locations which the Board considers suitable for the Group's medicine retail business. The details of the transactions are disclosed the Company's announcement dated 7 February 2018 and circular dated 29 March 2018.

At the end of the reporting period, the Group owned 12 properties which are all retail properties. Some of these properties were leased out for commercial purpose whereas some were used as our retail shops. During the year, the net fair value gain on investment properties of the Group amounted to HK$23.4 million. Despite the upward adjustment in the valuation of the properties as compared to last year, the Group considers that the investment property portfolio can provide stability to the operating cost of retail shops and strengthen the Group's income base in the long run.

## (4) Investment in Easy One Financial Group Limited ("Easy One")

Easy One, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), is principally engaged in the businesses of property development in mainland China, provision of finance and securities brokerage services in Hong Kong.

As at 31 March 2018, the Group held 132,418,625 shares, representing approximately 23.8% of the issued shares of Easy One.

The Group's share of loss of Easy One amounted to approximately HK$96.1 million included a loss on deemed partial disposal of Easy One of HK$52.2 million for the current year (2017: share of loss amounted to approximately HK$47.7 million).

On 5 October 2016, the Group granted an unsecured revolving loan facility to Easy One of HK$100.0 million for a term of 24 months at an interest rate of 6.5% per annum, details of which were set out in the Company's announcement dated 5 October 2016. As at the date of this announcement, HK$100.0 million had been drawn down by Easy One and remained outstanding.

## (5) Investment in China Agri-Products Exchange Limited ("CAP")

CAP, a company listed on the Main Board of the Stock Exchange, is principally engaged in the management and sales of properties in agricultural produce exchange markets in mainland China.

Pursuant to the subscription agreement dated 4 October 2014 (as supplemented on 28 November 2014) and the sale and purchase agreement dated 5 July 2016 (as supplemented on 8 July 2016), the Group had subscribed for an unlisted 5-year bond due November 2019 with coupon rate of 10.0% per annum issued by CAP (the "**2019 CAP Bond**") in principal amount of HK$720.0 million on 28 November 2014 and further acquired the 2019 CAP Bond in a principal sum of HK$200.0 million from Double Leads Investments Limited, an indirectly wholly-owned subsidiary of Wang On Group Limited ("**Wang On**").

As at 31 March 2018, the Group held a principal amount of HK$920 million (31 March 2017: HK$920 million) of 2019 CAP Bond and the fair value of the 2019 CAP Bond held by the Group amounted to approximately HK$909.6 million (31 March 2017: approximately HK$912.1 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## (6) Equity Investments at Fair Value through Profit or Loss

The Group has maintained a portfolio of listed equity securities in Hong Kong which are held for trading purpose. The Group holds shares of Town Health International Medical Group Limited ("**Town Health**"), which accounts for 0.6% of the total assets of the Group. In 2017, the share price declined, and trading in the shares was suspended. During the year, the Group recognised a fair value loss of HK$41.6 million on the investment in Town Health. The Group has recorded an overall net loss on change in fair value of equity investments at fair value through profit or loss of approximately HK$17.8 million for the current year (2017: HK$47.5 million).

## (7) Commissioning of the Yuen Long Factory

The modern TCM and Western medicine factory of the Group in Yuen Long Industrial Estate has been gradually put into production since April 2017 and was granted the standard certification of the PIC/S by the TGA of Australia in the first half of 2017. The new GMP factory of Luxembourg Medicine was granted the PIC/S certification by the Pharmacy and Poisons Board of Hong Kong in September of the same year, certifying that the Group's products are "100% made in Hong Kong" and the quality meets world-class standard. In addition to improvement in the product quality level, fully automated production equipment of the Yuen Long Factory significantly improves the production capacity and reduces the overall operating costs.

In the meantime, we will have our production of Luxembourg Medicine Western pharmaceutical products in the new factory through a full automation process. The new factory is also equipped with state-of-the-art laboratory in microbiology and laboratory equipment. With the pure water system conforming to the specifications in the British Pharmacopoeia, the products will be in compliance with the Hospital Authority's medicine tenders requirement as well as the indicators of the prescription medicines by local doctors.

## (8) Factory Building in Mainland China

To expand the Group's manufacturing capacity and further strengthen its business in mainland China, the Group acquired a factory building and two dormitory buildings located at Nanbu Village, Pingshan Town, Shenzhen, China, with a gross floor area of approximately 19,475 square meters.

During the year, the Group completed the renovation of this factory and contracted out the production to a GMP licensed manufacturer on a temporary basis to path the way for the Group's future expansion in mainland China market.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Liquidity and Gearing and Financial Resources

As at 31 March 2018, the Group had total assets of approximately HK$3,656.5 million (2017: approximately HK$3,573.3 million) which were financed by current liabilities of approximately HK$425.4 million (2017: approximately HK$212.6 million), non-current liabilities of approximately HK$671.1 million (2017: approximately HK$702.9 million) and shareholders' equity of approximately HK$2,560.0 million (2017: approximately HK$2,657.7 million).

As at 31 March 2018, the Group's bank balances and cash were approximately HK$420.8 million (2017: approximately HK$323.7 million). As at 31 March 2018, the Group's total bank borrowings amounted to approximately HK$927.0 million (2017: approximately HK$759.3 million), all of which bore interest at floating interest rates and were denominated in Hong Kong dollars. As at 31 March 2018, the maturity profile of all bank borrowings based on the dates set out in the relevant loan agreements was shown below, together with the corresponding figures as at 31 March 2017:

| | 2018<br>HK$'000 | 2017<br>HK$' 000 |
|---|---|---|
| Bank loans repayable: | | |
| Within one year | **264,790** | 62,290 |
| In the second year | **42,290** | 34,790 |
| In the third to fifth years, inclusive | **151,869** | 139,370 |
| Beyond five years | **468,068** | 522,857 |
| | **927,017** | 759,307 |

The Group maintained a healthy liquidity position. The current ratio, being a ratio of total current assets to total current liabilities, was approximately 2.5 (2017: approximately 4.1). The gearing ratio, being the ratio of total borrowings net of bank balances and cash to equity attributable to owners of the parent, was approximately 19.8% (2017: approximately 16.4%). The Group always adopts a conservative approach in its financial management.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Significant Investments Held

As at 31 March 2018, the Group had available-for-sale investments of approximately HK$911.6 million and equity investments at fair value through profit or loss of approximately HK$127.6 million, details of which were set out as follows:

| | As at 31 March 2018 | | | | For the year ended 31 March 2018 | | | | Fair value/carrying amount | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Nature of investments | Number of shares held | Amount/ units held | Percentage of shareholding in such stocks | Percentage to the Group's total assets | Addition/ (Disposal) | Change in Fair value | Imputed interest income | Interests/ Dividends received | As at 31 March 2018 | As at 31 March 2017 | Investment cost |
| | '000 | HK$'000 | % | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ***Available- for-sale investments:*** | | | | | | | | | | | |
| ***– unlisted securities debenture*** | | | | | | | | | | | |
| 2019 CAP Bond | — | 909,562 | — | 24.875% | — | (6,263) | 3,732 | 95,403 | 909,562 | 912,093 | 920,000 |
| ***– listed securities debenture*** | | | | | | | | | | | |
| Korean Air Line Co. Ltd. | | | | | | | | | | | |
| - 5.875% 3-year Bonds | — | 2,029 | — | 0.055% | 2,029 | — | — | 8 | 2,029 | — | 2,029 |
| | — | 911,591 | — | 24.930% | 2,029 | (6,263) | 3,732 | 95,411 | 911,591 | 912,093 | 922,029 |
| *Equity investments at fair value through profit or loss:* | | | | | | | | | | | |
| **A.Listed Investments** | | | | | | | | | | | |
| Kingston Financial Group Limited ("**Kingston**") | 12,336 | 43,299 | 0.09% | 1.184% | — | 12,089 | — | 308 | 43,299 | 31,210 | 9,413 |
| Power Financial Group Limited ("**Power Financial**") | 1,333 | 292 | 0.04% | 0.008% | — | 120 | — | — | 292 | 172 | 9,705 |
| Town Health | 52,500 | 23,520 | 0.60% | 0.643% | — | (41,580) | — | 147 | 23,520 | 65,100 | 16,434 |
| Sino Harbour Holdings Group Limited ("**Sino Harbour**") | 36,000 | 14,580 | 1.46% | 0.399% | — | (3,780) | — | 360 | 14,580 | 18,360 | 20,049 |
| Wang On | 423,000 | 43,992 | 2.23% | 1.203% | — | 14,382 | — | 2,538 | 43,992 | 29,610 | 16,819 |
| **B.Mutual Funds** | | | | | | | | | | | |
| Emerging Market Bond Fund | 33 | 559 | — | 0.016% | — | 19 | — | — | 559 | 540 | 519 |
| China Growth Fund | 13 | 189 | — | 0.005% | — | 54 | — | — | 189 | 135 | 130 |
| Asian Equity Plus Fund | 20 | 327 | — | 0.009% | — | 81 | — | — | 327 | 246 | 212 |
| ASEAN Frontiers Fund | 21 | 293 | — | 0.008% | — | 59 | — | — | 293 | 234 | 212 |
| USD Money Fund | 57 | 542 | — | 0.015% | — | (16) | — | — | 542 | 558 | 541 |
| Opus Mezzanine Fund 1 LP | — | — | — | — | (4,910) | 772 | — | — | — | 4,138 | 3,900 |
| | — | 127,593 | — | 3.490% | (4,910) | (17,800) | — | 3,353 | 127,593 | 150,303 | 77,934 |

The principal activities of the other listed securities are as follows:

1. **Kingston**

   Kingston is principally engaged in the provision of a wide range of financial services which include securities underwriting and placements, margin and initial public offering financing, securities brokerage, corporate finance advisory services, futures brokerage and asset management services. Kingston also provides gaming and hospitality services in Macau.

2. **Power Financial**

   Power Financial is principally engaged in financial services business, money lending business and asset investment business.

# MANAGEMENT DISCUSSION AND ANALYSIS

3. **Town Health**

   Town Health is principally engaged in (i) healthcare business investments; (ii) provision and management of medical, dental and other healthcare related services; and (iii) investments and trading in properties and securities.

4. **Sino Harbour**

   Sino Harbour is principally engaged in the property development business with a focus on residential properties in Jiangxi Province, China.

5. **Wang On**

   Wang On is principally engaged in property development, property investment, management and sub-licensing of Chinese wet markets, treasury management and production and sale of pharmaceutical products in Hong Kong and mainland China.

The Group also invested in certain other mutual funds including an emerging market bond fund, a China-focused growth fund, an Asian equity “plus” fund and an US dollar currency fund.

## Financial Review and Prospect of Significant Investments Held

**Available-for-sale investments**

As at 31 March 2018, the Group held the 2019 CAP Bond in the principal amount of HK$920.0 million (2017: HK$920.0 million) and Korean Air Line Co. Ltd. Bonds in the principal amount of HK$2.0 million (2017: Nil). As at 31 March 2018, the fair value of the 2019 CAP Bond amounted to approximately HK$909.6 million (2017: approximately HK$912.1 million) and the fair value of the Korean Air Line Co. Ltd. Bonds amounted to approximately HK$2.0 million (2017: Nil). The Bonds had provided a reasonable and stable cash income stream to the Group and the Group intended to hold them to maturity.

**Equity investments at fair value through profit or loss**

With a view to optimise its use of cash resources, the Group invested in various listed equity securities and mutual funds with prudence and in a cautious manner. As at 31 March 2018, the Group maintained an investment portfolio of listed equity securities in Hong Kong and mutual funds. The Group had recorded a net loss on change in fair value of equity investments through profit or loss of approximately HK$17.8 million for the year under review (2017: a net loss of approximately HK$47.5 million). The Group has always adopted a prudent investment strategy and would closely monitor the market changes and adjust its investment portfolio as and when necessary.

## Foreign Exchange

The Board is of the opinion that the Group has no material foreign exchange exposure and thus does not engage in any hedging activities. All bank borrowings are denominated in Hong Kong dollars. The revenue of the Group, mostly denominated in Renminbi and Hong Kong dollars, matches the currency requirements of the Group’s operating expenses.

## Capital Commitment

As at 31 March 2018, the Group had capital commitment of approximately HK$ 317.6 million (2017: approximately HK$11.0 million) in respect of the acquisitions of property, plant and equipment and subsidiaries, which were contracted for but not provided for in the consolidated financial statements.

## Pledge of Assets

As at 31 March 2018, the Group’s bank borrowings were secured by the Group’s land and buildings and investment properties, with a total carrying value of approximately HK$645.7 million (2017: approximately HK$634.6 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

### Contingent Liabilities

As at 31 March 2018, the Group had no material contingent liabilities (2017: Nil).

## RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises our employees as the key element that contributes to the Group's success. As at 31 March 2018, the Group had 721 (2017: 713) employees, of whom approximately 75.5% (2017: approximately 76.1%) were located in Hong Kong and the rest were located in mainland China. The Group remunerated its employees based on industry practices and individual performance and experience. On top of the regular remuneration, discretionary bonus and share options would also be granted to selected staff by reference to the Group's performance as well as the individual's performance. The Group also provides a defined contribution to the Mandatory Provident Fund as required under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for our eligible employees in Hong Kong. Other benefits such as medical and retirement benefits and structured training programs were also provided. Meanwhile, the Group endeavours to provide a safe workplace to our employees. The Board believes that the Group maintains admirable relations with the employees.

Besides, the Group understands that it is important to maintain good relationship with the stakeholders, including business partners, suppliers, customers, shareholders, investors and bankers to achieve its long term business growth and development. With an aim to enhancing the competitiveness of the brands of the Group, it endeavours to provide consistently high quality and large range of products to its customers; and to build up and maintain a trustworthy and long-term relationship with its suppliers.

## PRINCIPLE RISKS AND UNCERTAINTIES

The Group has examined the principal risks facing the Group through our risk management and internal control system and we consider that the major risks and uncertainties that may affect the Group included:

(i) industrial policy risk: with the deepening of medical system reform and the issuance of a number of industrial policies and laws in respect of medical charge control and control of medicines and certification for TCM significant effect may be brought to the future development of the pharmaceutical industry;

(ii) low growth of customer base: due to the decrease in the number of mainland tourists and Hong Kong economy recession this year;

(iii) environmental protection policies: environmental impact, efficiency and security of key infrastructure;

(iv) cost control;

(v) impairment of inventory: impairment value of inventory due to weather, expiry date and other damages;

(vi) supply chain disruption: due to industrial issues, risks of supplier control and flexibilities, to deal with competitive pricings;

(vii) inability to penetrate emerging markets: with potential difficulties to effectively penetrate traditional industries and traditional products into emerging markets;

(viii) respond to customer behaviour: economy recession, consumers reduced consumption, reduction in consumer spending and change of impulsive shopping behavior;

(ix) sourcing: less globalised sourcing, the impact on the relative competitiveness of costs;

(x) volatility in retail rental: continue increasing in retail rental; and

(xi) foreign exchange: fluctuations in the exchange rate affecting the Group's cash flow and profits.

In response to the above mentioned possible risks, the Group has been closely monitoring the changes in the policies in Hong Kong and mainland China, and would strengthen our interpretation and analysis of policies and adjust strategies in advance to cope with the ever-changing operating environment. In particular, the Group will strengthen the marketing management to cope with changes in consumer behavior and needs, closely control inventories, establish our own sales policies and product development, safety management and environmental protection level, and push forward the construction of lean management and risk control system. For possible risks, the Company would actively propose solutions to lower their impacts on the business of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

In accordance with the statistics published by the Census and Statistics Department of Hong Kong, the overall tourist arrivals to Hong Kong increased by 3.2% year-on-year; while mainland China tourist arrivals to Hong Kong increased by 3.9%, reversing the 6.7% drop in 2016. The overall retail sales in Hong Kong increased by 2.2% year-on-year in 2017, as compared to 8.1% decrease in 2016, reversing the three-year decline. The Group is confident that sales will benefit from the significant recovery of the retail market.

Mainland China has strongly supported the development of TCM. The national policy for Guangdong-Hong Kong-Macau Greater Bay Area, as a key development area, also provides a bright prospect for TCM development. The Group will take Hong Kong as a platform and seize the good opportunity for entry of TCM into the Chinese market. In Hong Kong, the first TCM hospital is about to be completed, which represents greater support from the government for the TCM industry. This is conducive to TCM scientific research and industrial development. Therefore, the Group will actively support national blueprints for mid-and-long-term TCM development. It is committed to giving full play to competitive edges including the advantage of "Wai Yuen Tong" as a century-old brand, world-class quality monitoring procedures and production capacity enhancement. It will seize development opportunities and potential business opportunities. With the "Wai Yuen Tong" brand well-known in mainland China, the Group expects that the demand for TCMs and health food will increase continuously, and "Wai Yuen Tong" businesses in mainland China are expected to grow steadily. Meanwhile, the Group will continue to enhance the cross-border offline-to-online (O2O) platform for shopping through the mobile apps of "Wai Yuen Tong", and strengthen the interaction and communication with customers, so as to seize enormous opportunities in the e-commence market.

In terms of research and development of new products, with commissioning of the Yuen Long Factory in Yuen Long in April 2017, the production and product research and development capacities will be improved significantly. In response to the urbanities' demand for health preservation and healthcare, the Group is committed to developing high value-added products. "Angong Niuhuang Wan" was launched into the market in December 2017. Products in the same series, such as "Angong Jiangya Wan", are planned to be launched in 2018. Given the increasing market demand for metropolis health products and men's health products, the Group will launch various Chinese patent medicines for men's and metropolis series in this year, including "Golden Dura-Gizer (金裝剛勁)", "Golden Deer's Tail (金裝鹿尾巴)", "Uricid Aid Capsules (降酸通膠囊)" and "Gastrointestinal Pills (整腸正氣丸)", so as to further increase their market share. The Group will continue to implement strict quality control, and will flexibly formulate operating strategies in response to market demand and change in consumption models of customers. It will expand product portfolio and introduce new product and service offerings, and expand the customer base.

With a history of over 120 years in the TCM market, "Wai Yuen Tong" has a well-established brand and continuously keeps pace with the times. In order to promote brand rejuvenation, the Group launched a series of promotion activities during the year to attract more customers under 50 years of age. For the first time, it invited Ms. Gigi Leung Wing-kei, a Hong Kong singer to act as the ambassador of "Wall-Broken Ganoderma Lucidum Spores (Upgraded Formula) (破壁靈芝孢子(升級配方))", and sponsored GIGI Goodtime Worldtour Hong Kong. In addition, the Group invited Mr. Ray Lui Leung-wai, a legendary actor to serve as the ambassador of "Angong Niuhuang Wan (安宮牛黃丸)", so as to enhance the brand image of "Wai Yuen Tong". In terms of marketing, the management continuously explores new sales channels and promotion methods, keeps pace with the times and improves the product awareness by diversifying promotion models.

The Group will continue to explore suitable merger and acquisition opportunities to diversify its current business portfolio, which not only would promote long-term capital appreciation but also increase the Group's source of revenue. In addition, the Group will continue to optimise and adjust its retail store network in Hong Kong and mainland China to further enhance the operational cost-effectiveness.

As "a century-old well-established brand and a Hong Kong brand", "Wai Yuen Tong" will continue to develop its core business, build on its solid customer base and customer confidence in the brand, and take up the challenges with flexibility, innovative ideas and operational mechanisms, in order to provide our customers in mainland China, Hong Kong and beyond, with quality products and services.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

"The Board is accountable to stakeholders for the activities and performance of the Group and its primary functions cover, among other things, the formulation of overall strategy."

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## BOARD OF DIRECTORS

### Executive Directors

**Mr. Tang Ching Ho**, *SBS, JP*, aged 56, was appointed as the Chairman of the Company in August 2001 and also assumed the role of Managing Director with effect from 1 April 2018. He is an authorised representative and a member of the remuneration committee, the nomination committee and the executive committee of the Company. He is responsible for the strategic planning, policy making and business development of the Group. He has extensive experience in corporate management. He is also the chairman of Wang On. Mr. Tang is the committee member of the 12th and 13th National Committee of the Chinese People's Political Consultative Conference ("**CPPCC**") and is also appointed as a standing committee member and convener of the 10th to 12th plenary sessions of the CPPCC Guangxi Zhuang Autonomous Region Committee. Mr. Tang is also appointed as the executive chairman of the Federation of Hong Kong Guangdong Community Organisations and the chairman of Federation of Hong Kong Shenzhen Association. He is the brother of Ms. Tang Mui Fun and the father of Ms. Tang Wai Man, both are executive Directors.

**Mr. Chan Chun Hong, Thomas**, aged 54, was appointed as the Managing Director in August 2001 and was re-designed as an executive Director with effect from 1 April 2018. He is also an authorised representative and a member of the executive committee of the Company. He is responsible for managing the corporate matters of the Group. Immediately after Mr. Chan's re-designation of his position, he entered into a revised service agreement with the Company on 1 April 2018 confirming he remains to be entitled a basic monthly salary of HK$55,080 but no longer entitles to receive any yearly performance bonus. He is also the managing director of Wang On, the non-executive chairman of WOP, the chairman and managing director of Easy One, the chairman and chief executive officer of CAP, all companies are listed on the Main Board of the Stock Exchange. He graduated from the Hong Kong Polytechnic University with a bachelor degree in Accountancy and is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

**Ms. Tang Mui Fun**, aged 47, joined the Group in 2003 and was appointed as the Executive Director in September 2007. Ms. Tang is a member of the executive committee of the Company and acts as directors of certain subsidiaries of the Group. She is responsible for the overall strategic planning and development and policy making for the core business of the Group. Ms. Tang has extensive experience in pharmaceutical industry and has been re-appointed as a member of each of the Pharmacy and Poisons (Listed Sellers of Poisons) Committee and the Committee on Research and Development of Chinese Medicines on an *ad personam basis*, she is also elected as a member of each of Chinese Medicine Council of Hong Kong, Chinese Medicines Board and Chinese Medicines Committee. She graduated from the University of Hull (England) with a bachelor degree in accounting. Prior to joining the Group, she had over two years of experience in the accounting and auditing fields and five years of experience in general management. She is a sister of Mr. Tang Ching Ho, the chairman and Managing Director.

**Ms. Tang Wai Man**, aged 27, joined the Group in January 2016 and was appointed as an Executive Director on 1 April 2018. She is also a member of the executive committee, the nomination committee and the remuneration committee of the Company. Ms. Tang is responsible for strategic sales and marketing, channel sales and retail operation in Hong Kong, Macau and mainland China of the Group. She graduated from University of Edinburgh, UK with a Master of Arts with Honors in Business Studies. Prior to joining the Group, she has worked for Wang On since July 2014 as an assistant to Wang On's chairman and gained other experience in financial analysis, sales and marketing and business development in a number of corporate bodies in Hong Kong and the United Kingdom. Ms. Tang is also a director of most of the subsidiaries of the Company. She is the daughter of Mr. Tang Ching Ho, the chairman and Managing Director and the substantial and controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) of the Company and a niece of Ms. Tang Mui Fun, an executive Director.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-Executive Directors

**Mr. Leung Wai Ho**, *MH*, aged 68, was re-designated as an Independent Non-executive Director in April 2006 from a non-executive Director and he joined the Group in 1994. Mr. Leung is a member of the audit committee, the remuneration committee and the nomination committee of the Company. He has more than 51 years and 21 years of experiences in the watch industry and financial industry respectively. He is a member of the 11th and 12th plenary session of the National Committee of the CPPCC, a Standing Committee Member of The Chinese General Chamber of Commerce, a Committee Member of The Chinese Manufacturers' Association of Hong Kong, the Honorary President of the Hong Kong Chamber of Commerce in China — Guangdong and the Chartered President of the Dongguan City Association of Enterprises with Foreign Investment. Mr. Leung is also appointed as a candidate of 2016 Election Committee of HKSAR Chief Executive, Subsector — CPPCC.

**Mr. Siu Man Ho, Simon,** aged 44, joined the Company as an Independent Non-executive Director in August 2001. He is a member of the audit committee and the nomination committee of the Company and the chairman of the remuneration committee of the Company. Mr. Siu is a practising solicitor of the High Court of Hong Kong. He obtained a bachelor of Laws degree from the University of Hong Kong in 1996 and is a partner of a law firm, namely Sit, Fung, Kwong & Shum, and a China-Appointed Attesting Officer. His areas of practice include corporate finance, capital markets, securities, mergers and acquisitions, joint ventures and general commercial matters. Mr. Siu is also an independent non-executive director of each of Brilliant Circle Holdings International Limited (stock code: 1008), Weiye Holdings Limited (stock code: 1570), Shuang Yun Holdings Limited (stock code: 1706) and HKE Holdings Limited (stock code: 1726), all of which are listed on the Main Board of the Stock Exchange. Mr. Siu was appointed as the independent non-executive director of Jiashili Group Limited (stock code: 1285) with effect from 12 June 2015 and resigned from the position on 1 December 2015.

**Mr. Cho Wing Mou**, aged 77, joined the Company as an Independent Non-executive Director in September 2001. He is a member of the audit committee and the remuneration committee of the Company and the chairman of the nomination committee of the Company. Mr. Cho was formerly a director and deputy general manager of Hua Chiao Commercial Bank Limited and a deputy general manager of The China State Bank Limited. He was a committee member of the 8th Political Consultative Conference Guangxi and is also a committee member of the 4th plenary session of the Guangxi Yulin Committee of the CPPCC, Life Chairman of Hong Kong Guangxi Yulin Friendship Association and Life Chairman of Gee Tuck General Association Hong Kong Limited.

**Mr. Li Ka Fai, David**, aged 63, joined the Company as an Independent Non-executive Director on 17 March 2015. He is the chairman of the audit committee of the Company. Mr. Li is currently the deputy managing partner of Li, Tang, Chen & Co. CPA (Practising). He is a fellow member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, U.K., The Institute of Chartered Secretaries and Administrators, U.K., as well as The Institute of Chartered Accountants in England and Wales. Mr. Li is an independent non-executive director and the chairman of the audit committee of Shanghai Industrial Urban Development Group Limited (stock code: 563). Mr. Li is also an independent non-executive director, the chairman of the audit committee, member of the nomination committee and member of the remuneration committee of China-Hongkong Photo Products Holdings Limited (stock code: 1123), Cosmopolitan International Holdings Limited (stock code: 120) and Goldlion Holdings Limited (stock code: 533), an independent non-executive director, member of the audit committee, member of the nomination committee and the chairman of the remuneration committee of China Merchants Port Holdings Company Limited (formerly known as China Merchants Holdings (International) Company Limited) (stock code: 144), and an independent non-executive director, member of the audit committee and member of the remuneration committee of AVIC International Holding (HK) Limited (stock code: 232), all of such companies are being listed in Hong Kong.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr. Lung Chi Ho, Markus** is currently the Director (Technical) of both WYT Medicine Group and Luxembourg Medicine Group, principal subsidiaries of the Group. He is responsible for technical operations of the Group including quality control, quality assurance, production, research and development, engineering, warehouse and logistic issues. Prior to joining the Group in August 2014, he has more than 20 years of experience in key management in local GMP pharmaceutical industries of Western medicine and Chinese medicine. He graduated from The Chinese University of Hong Kong with a bachelor degree in Pharmacy and also obtained a bachelor degree in Pharmacy in Chinese Medicines at the University of Hong Kong. He has been a registered Pharmacist of The Pharmacy and Poisons Board of Hong Kong since July 1997 and a registered Authorised Person with the board since 2009.

**Mr. Tse Tin Nam**, **Raymond** joined the Group in January 2016 as the Director (Sales and Marketing) of WYT Medicine Group. Mr. Tse is responsible for overall strategically planning for Chinese pharmaceutical business development, sales and marketing and business model re-engineering of the Group. He graduated from the University of Wisconsin, U.S.A. with over 35 years of extensive experience in fast moving consumer goods, commodities and personal care product marketing, sales distribution, building business infrastructure to facilitate continuous business growth in Greater China, Asean and North Asia Pacific region. Prior to joining the Group, he worked for several renowned enterprises with proven track records in successful setting up of tax preferential procurement and distribution centre in Malaysia and WOFE contractual joint ventures, legal billing and administration entity in mainland China to support macro business expansion in an vertical integrated sales distribution business processes.

**Mr. Chan Kin Man** is currently an Associate Director, Traditional Chinese Medicine Strategic Development of WYT Medicine Group. He is responsible for overall strategic planning on product marketing field and new product development. Prior to the joining the Group in 2004, he has more than 7 years of experience in 4A advertising agency Leo Burnett and DY&R. Mr. Chan graduated from the University of Hong Kong with a Bachelor of Chinese Medicine (BChinMed), and obtained a MBA at the University of Wales, Aberystwyth (UK). He is a Registered Chinese Medicine Practitioner under the Chinese Medicine Practitioners Board of the Chinese Medicine Council of Hong Kong.

**Mr. Wong Yiu Tat, Stephen** joined Wang On Group in November 2016 in the capacity of General Manager, Business Analysis and Control, and he took up the role of Financial Controller for the Group in May 2017. Mr. Wong is a fellow member of The Institute of Chartered Accountants of England and Wales, The Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Apart, he is an associate member of Chartered Institute of Legal Executives of UK and Chartered Institute of Securities and Investments. Prior to joining Wang On Group, Mr. Wong has over 25 years' experiences in financial management and statutory compliance, financial and business processes advisory services for blue chips multinational companies, Hong Kong listed companies and public sectors. He holds Bachelor honoured degrees in Law, and Accounting and Finance, and a Master degree in Business Administration from UK universities.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


"The Group engages with various groups of stakeholders to obtain their valuable feedback and seek ways to improve its business, achieve a sustainable business and give back to the society and its stakeholders."

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This is the second "Environmental, Social and Governance ("**ESG**") Report" issued by the Company. It has been prepared in compliance with the ESG Reporting Guide set out in Appendix 27 to the Listing Rules.

The purpose of this report is to enhance stakeholders' understanding of the Group's ESG management approach and discharge of its obligations to the society and the environment where we operate.

The Board acknowledges its responsibility for ensuring the integrity of this report and to the best of its knowledge this report addresses all material issues and fairly presents the ESG related initiatives undertaken by the Group. The Board confirms that it has reviewed and approved this report.

### Reporting Scope and Period

The scope of this report includes WYT Medicine Group and Luxembourg Medicine Group. The report covers the Group's financial year from 1 April 2017 to 31 March 2018.

### Feedback

Your feedback regarding the content provided in this report is valuable and shall help us improve future reporting. Please direct your feedback and comments to:

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# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ESG MANAGEMENT APPROACH

As a renowned healthcare group specialising in both Chinese and Western medicines in Hong Kong, the Group owns the Chinese medicine brand "Wai Yuen Tong" and the Western Medicine brand "Madame Pearl's". The well-established brands of "Wai Yuen Tong" and "Madame Pearl's" are built on our commitment to product quality and sincere customer services.

As a manufacturer and provider of healthcare products, it is crucial to assure product quality and safety. To maintain the highest quality standards for its products, the Group's pharmaceutical manufacturing facility has complied with the standards stipulated by the GMP for proprietary Chinese medicines issued by the Chinese Medicine Council of Hong Kong and the PIC/S issued by the TGA of Australia. With our comprehensive quality control system, we make sure the products are safe before launching in the market.

Occupational Health and Safety ("**OHS**") is among our top priority issues. We mitigate the risk of employees facing occupational hazards through the implementation of a management system following the guideline of OHSAS 18001 standards. A Company Safety Committee is in place to monitor the effective implementation of OHS management system.

Regarding environmental issues, the Group strives to minimise the impacts to the environment through all feasible means such as advocating energy conservation initiatives and appropriate treatment of exhaust gas before emission.

We recognise the growing expectations on the corporate sustainability performance including but not limited to environmental stewardship, health and safety and community contribution. In the coming year, we will keep incorporating sustainable practices into our business, spearheaded by our Managing Director and supported by the respective department heads.

### Stakeholder Engagement

The Group engages with various groups of stakeholders including customers, community, employees, investors and shareholders, suppliers and contractors to obtain their valuable feedback and seek ways to improve its business, achieve a sustainable business and give back to the society and its stakeholders. Below are the engagement approaches and the sustainability issues that the stakeholders are concerned about.

| Stakeholders | Engagement Methods | Topics |
|---|---|---|
| Customers | • Customer services<br>• Company websites | • Product safety<br>• Customer satisfaction |
| Community | • Participate in community events held by charitable organisations and non-governmental organisations | • Community investment<br>• Environment |
| Employees | • Training and development<br>• Performance appraisals<br>• Grievance mechanism | • Training and development<br>• Health and safety<br>• Employee well-being |
| Investors and shareholders | • Annual general meeting<br>• Financial and ESG reports<br>• News releases | • Corporate governance<br>• Information disclosure<br>• Risk management |
| Suppliers and contractors | • One-on-one meetings | • Quality assurance<br>• Health and safety |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## PRODUCT EXCELLENCE

*We not only impose the strictest quality controls on our products, but also continue to pursue innovation to improve our products/ services and enrichment of the product portfolio.*

During the year, the Group was not aware of any violation of relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising , labelling and privacy matters relating to products and services provided and methods of redress.

The operations of the Group's pharmaceutical manufacturing facility comply with the GMP guidelines and fulfil the standard of PIC/S. All production, testing and distribution processes strictly adhere to the Standard Operation Procedures (S.O.P.) laid down by the pharmaceutical manufacturing plant.

Adhering to the manufacturing standards, we consistently manufacture products of the highest quality by controlling the personnel, premises, equipment and implementing quality control procedures. We ensure all personnel are qualified to carry out relevant duties by providing them sufficient training and specific knowledge and skills for performing their assigned duties and tasks. All personnel entering the manufacturing area are required to adhere to personal hygiene procedures, such as wearing clean working clothing, foot coverings and hair covering depending on the duties they perform, to protect the products against contamination.

In our premises, we ensure there is adequate space for medicines processing and storage, minimising the risk of mix-ups and cross-contamination. We take all necessary measures to mitigate the potential hazards to the quality of products during the manufacturing process and storage. For instance, facilities for power supply, lighting, ventilation, temperature and humidity control are in place to maintain a suitable environment for production and storage.

Our quality control procedures, involving sampling, making specifications and testing, are carried out by the quality control department to ensure only products with satisfactory quality are released. Our quality control department is responsible to ensure the correct labeling of containers, monitor the ingredients' stability and investigate complaints related to the quality of products. In case the products do not meet the specifications, they will be reprocessed before reentering the quality control process again. With strict adherence to quality control procedures, our products maintain the highest quality and are trusted by our customers.

Besides, we strive to improve our products and expand the product portfolio to respond to market demand. Our dedicated research and development department, comprising of a team of professionals, continues to carry out various research works on product improvement and development projects. During the year, we have enriched the product portfolio by launching high value-added new products such as Angong Niuhuang Wan and Angong Jiangya Wan. In addition, we have also launched a new mobile app for Chinese medical consultation appointment and decocting services in collaboration with a medical information search portal, catering for the needs of urban people.

### Customer Grievance Mechanism

The Group has a sound customer grievance mechanism to handle customer complaints in a timely manner. In case there is any complaint concerning a possible product defect, we conduct a thorough investigation into the product quality. If a product defect is discovered or suspected in a batch, we also trace back to check other batches of relevant products to determine whether their quality has also been affected.

We take appropriate follow-up action such as product recall after the investigation. Through our product recall system, we make sure the defective products are recalled promptly and effectively and all relevant parties, including Chinese Medicines Board, customers, suppliers and retail outlets are notified. The recall system is evaluated regularly to maintain its effectiveness.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OPERATING PRACTICES

*Responsible operating practices ensure long-term success of the Group, reinforcing its leading position in medical and healthcare product industry.*

### Supply Chain Management

Supplier selection and management play a great part in our ultimate goal to provide the best quality medical and healthcare products to our customers. During procurement of new products, at least three suppliers are compared. The suppliers are evaluated and selected mainly based on the price, quality and service provision after the approval of the department head.

The Group has also set up a complete procedure to evaluate, select and monitor contractors involved in business activities such as maintenance and logistics. Occupational health and safety is one of the major selection criteria. All new contractors have to submit their safety policy and safety plan to the Group. Considering the completeness of their safety plans, suitable contractors are invited to tender. For the qualified contractors, the Group strictly monitors their safety performance through effective communication and safety inspection. To ensure close communication with contractors, our Safety Committee disseminates safety information to contractors through monthly meetings, mails and leaflets.

### Data Privacy

The Group takes all necessary measures to prevent its confidential information from being disclosed. As stipulated in the staff handbook, employees must not disclose any confidential information related to the Group without consent from the Board. The Group possesses ownership of all products formulae, design and research conducted by employees. Upon termination of employment, employees must return all materials and items that belong to the Group. If any employee is found to have violated the stipulation, the Group takes appropriate disciplinary action and reserves the right to take legal action.

### Anti-corruption

The Group is committed to achieving the highest possible standards of openness, probity and accountability. Employees at all levels are expected to maintain integrity and avoid any inappropriate actions that damage the Group's interest and reputation. Our Code of Conduct lists the legal provisions of Prevention of Bribery Ordinance, the Group's anti-corruption policy and appropriate handling methods regarding conflict of interest and acceptance of advantages and entertainment. Any violation of the Code of Conduct may lead to disciplinary action or termination of employment.

The Group reports any suspicious cases of corruption to Independent Commission Against Corruption (ICAC) for further investigation. Whistleblowing policy is also in place for employees to report any malpractices within the Group. The Group takes all reasonable steps to ensure that employees reporting such incidents suffer no detriment. During the year, the Group was not aware of any reported cases relating to bribery, extortion, fraud and money laundering.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OUR PEOPLE

*The Group recognises its people as the most important asset. We strive to provide them with equal opportunities for professional development and create a healthy and safe working environment.*

### Employment and Labour Practices

The Group strictly adheres to the relevant labour and employment laws in Hong Kong. During the recruitment process, hiring of child labour and forced labour are strictly forbidden. Adhering to the principle of equal opportunity, we recruit employees based on their capability, knowledge and job requirements, regardless of gender, religion, family status or disability. To protect our employees, a code of conduct is set up to control any inappropriate behaviours in the workplace including sexual harassment. Any complaints regarding violation of the code of conduct and employment practices can be made to the supervisors or the relevant department heads. If the complaint remains unsolved, employees can file the complaint with the Managing Director.

The Group offers competitive remuneration and a wide range of benefits to its employees. Apart from basic benefits such as Mandatory Provident Fund (MPF), maternity leave, marriage leave and compassionate leave, we offer special discounts to employees purchasing “Wai Yuen Tong” products. Both employees and their immediate family members enjoy benefit of our Chinese medicine clinic service. To provide employees the most comprehensive benefits and remuneration package, we regularly review the benefits and remuneration. Appraisal is conducted annually to evaluate employees’ work performance which serves as a basis for salary adjustment.

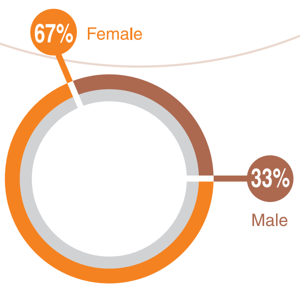
During the year, we were not aware of any non-compliance of laws and regulations that are significant to the Group regarding employment and labour practices. Nor did we identify any incidents relating to the adoption of child labour or forced labour.

### Employee Composition

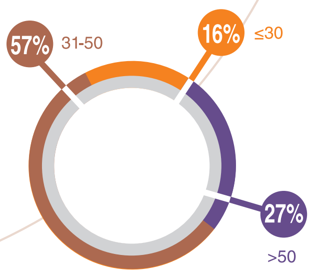
As of 31 March 2018, the Group had a total of 721 employees, of which 544 were based in Hong Kong and 177 employees were based in mainland China. The proportion of male to female employees was 33:67. Majority of employees were aged between 31 and 50, accounting for 57%. In terms of professional profile, management staff accounted for 5% of employees.

The overall turnover rate and new hire rate of the Group were 44.5% and 47.3%. In terms of gender profile, turnover rate of male employees was higher than female employees, with the ratio being 55.5% to 39.1%, while the new hire rates of male employees and female employees were proximate to their turnover rates. In terms of age profile, employees aged 30 or below had the highest turnover rate and new hire rates. Table below shows the details of turnover and new hire rates in terms of gender profile and age profile.

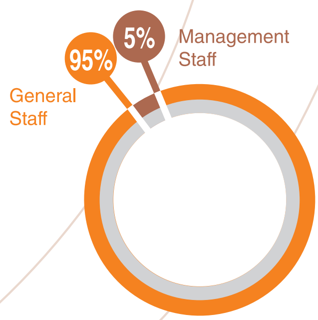
**Gender Profile**



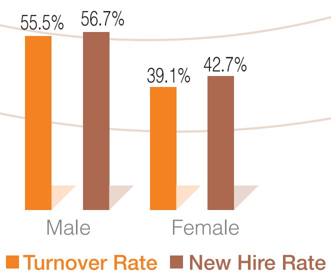

**Age Profile**



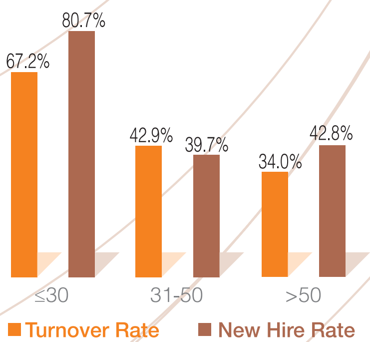

**Professional Profile**




**Turnover and New Hire Rates by Gender**




**Turnover and New Hire Rates by Age**



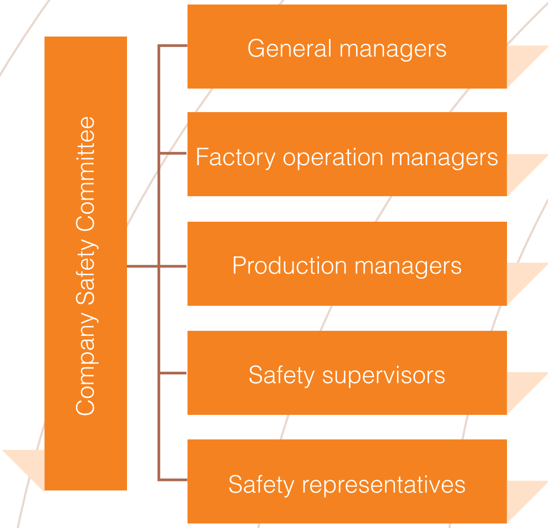
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Health and Safety

We are devoted to safeguarding the health and safety of each employee and aim to incorporate occupational health and safety into our business strategy, operations and activities to minimise the safety hazards. In this regard, we have implemented an occupational health and safety management system according to the requirements of OHSAS 18001 standard.

Our Company Safety Committee, comprising of general managers, factory operations managers, production managers, safety supervisors, safety representatives and any other parties concerned, is established to ensure the implementation of occupational health and safety policy. The committee meets at least once every three months to discuss safety matters.

During the year, the Group strictly complied with all relevant laws and regulations on occupational health and safety, including but not limited to Factories and Industrial Undertaking Ordinance, Occupational Safety and Health Ordinance, Dangerous Goods Ordinance, Fire Safety Ordinance, etc. We were not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to occupational health and safety.




**Structure of Company Safety Committee**

Prior to implementation of any safety measures, the Group conducts a risk assessment to identify potential safety hazards in the workplace, and then suggests corresponding mitigation measures and implementation timeline. To control safety risks, we take various remedial measures including but not limited to eliminating and reducing use and generation of hazardous materials, protecting employees from potential hazards, implementing safety rules, providing sufficient operational guidelines and training to employees. For instance, during procurement of materials, we require suppliers to provide a material safety data sheet (MSDS) providing information on chemicals used in the material. Based on the MSDS, safety representatives analyse the health hazards of chemical materials and provide instructions for appropriate handling.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To further minimise safety hazards in workplace, we ensure provision of personal protective equipment such as safety helmets, masks, earplugs, safety shoes, gloves when needed. The Group also provides health check for employees who are exposed to higher health and safety risk, aiming to spot any diseases at an early stage to prevent the health condition of the affected employees from deteriorating.

Safety inspections are conducted regularly to identify unexpected safety issues, defective equipment, inadequacies of corrective measures, etc. After the safety inspection, the safety supervisor prepares a monthly safety report, summarising and analysing the outcomes of safety inspection, and circulates the report to managers. In case of safety incidents, the Safety Committee is responsible for investigating the cause of accident, planning remedial measures and resources allocation and any precautionary measures that can help prevent recurrence of accidents. During the year, there were 7 work-related accidents, resulting a total of 82 lost days. We did not record any work-related fatalities.

## Raising Safety Awareness

To ensure all our employees are equipped with adequate knowledge and skills to perform their jobs safely, the Group conducts related safety training for all employees depending on their work positions. All new comers receive safety guidance training, which includes but not limited to the introduction of the Group's safety policy, the requirements of occupational health and safety management system, and other safe operational procedures. Employees working in factory receive first aid training as well as occupational safety and health supervisor certificate course training. All employees are required to fill in assessment forms after completion of the training session to facilitate continuous improvement of the training programmes. During the year, the total safety training hours were 378 hours.

In addition to safety training, employees can acquire knowledge on safety matters through various channels such as announcements, posters, safety seminar, safety meetings and so on.

## Training and Development

The Group places strong emphasis on career development and self-enhancement of its employees. In addition to induction training for new comers, a spectrum of training programmes is provided for employees to enhance their professional knowledge and skills relevant to their job duties, such as GMP training, Chinese medical products training, usage guidelines in Chinese medicine, system training, membership mobile app training, retail operations, effective communication skills, etc.

Being one of the pillars of the TCM industry, we aim at nurturing and exploring a number of aspiring young people to join the field of Chinese medicine. Cooperating with other recognised institutes in Hong Kong, we jointly offer a certified course in Foundation of Chinese Medicine for employees who wish to develop career in the field of Chinese medicine and pharmaceuticals. During the year, the total training hours were 3,056 hours.

Apart from internal training, the Group encourages employees to pursue continuous training from external parties. Under our Training Subsidy Scheme, we subsidise employees opting for continuous professional development courses organised by government recognised institutions that are relevant to their roles.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## COMMUNITY ENGAGEMENT

The Group is committed to fulfilling its corporate social responsibility and contributing to sustainable development in the city. To achieve our goals, we actively participated in a variety of charitable activities during the year, ranging from sponsorships, sports events to academic interaction. Our continued effort has been recognised by the Hong Kong Council of Social Service with a 5 Years Plus Caring Company Logo for Wai Yuen Tong, while 10 Years Plus Caring Company Logo for Luxembourg Medicine.

As one of the flagship events celebrating Wai Yuen Tong's 120th anniversary, in 2017, we partnered with The Hong Kong Society for the Aged and offered voluntary TCM consultation service and treatment to its elderly members, in hope to advocate healthy and fruitful living. In addition, "Wai Yuen Tong" participated in "Darkness to Go" donation sale organised by Orbis, donating part of the sales proceeds to support Orbis' sight-saving work worldwide.

As always, the Group is keen to nurture young generation and talents. During the year, we announced the grand opening of NJUCM and Wai Yuen Tong Industry, Education and Research Base, which signified the commencement of a five-year strategic partnership for TCM. NJUCM is one of the earliest established universities of TCM and an active participant in many international academic exchanges. Leveraging our expertise and competitive edges, we strive to spread TCM wisdom and showcase TCM to the world.

Meanwhile, our people teamed up to form a running team to participate in meaningful charity runs during the year, such as "Walk & Run for Water" and "Race for Water" organised by a non-profit organisation A Drop of Life, to extend our care to the remote mountainous area in developing countries which faces water scarcity problem.

During the year, we donated approximately HKD 2.6 million in total to support community charitable events and healthy development of Chinese medicine industry. The Group will continue to give back to the society, paving the way for a harmonious and sustainable society.


# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENT

*We are committed to improving our environmental performance through optimising resources conservation and emissions reduction measures.*

The Group strives to comply with all relevant environmental laws and regulations. During the year, we were not aware of any non-compliance of laws and regulations that have a significant on the Group relating to air and GHG emissions, discharges into water and land, or generation of hazardous and non-hazardous waste.

### Energy Consumption

The Group's energy consumption consists of gas for boilers' operations and the purchased electricity. The total energy consumption amounted to 24,719 gigajoules (GJ), of which 91% is accounted for by electricity usage, amounting to 22,553 GJ or 6,264,833 kWh. The energy consumed in the form of gas amounted to 2,166 GJ. The total energy intensity was 29.23 GJ per million revenue in HKD.

| Energy Consumption | FY2018 |
|---|---|
| Electricity | **22,553 GJ** |
| Gas | **2,166 GJ** |

The combustion of gas contributed to direct greenhouse gas emissions (Scope I) of 115 tonnes of carbon dioxide equivalent ($tCO_2e$) while the consumption of purchased electricity and purchased gas contributed to indirect emission (Scope II) of 3,222 $tCO_2e$.

| Greenhouse gas emissions | FY2018 |
|---|---|
| Direct emissions (Scope I) | **115 $tCO_2e$** |
| Indirect emissions (Scope II) | **3,222 $tCO_2e$** |
| Total | **3,337 $tCO_2e$** |

### Energy Conservation

In our office operations, we adopt LED and T5 lights that have higher energy efficiency. Our office equipment such as photocopiers have an energy saving mode to save energy when not in use. In the procurement of electric appliances, we prioritise appliances with energy efficiency labels. With an improving awareness of the need for energy saving, we make sure all the lights and air-conditioners are turned off after working hours. Sensor switches are installed for some of the office area, which further enhances energy saving efficiency.

In addition, we have adopted various energy saving measures in our factories. To minimise the energy consumption of air-conditioners, we limit the temperature of designated rooms to no less than 22 degree Celsius. We also seal the gap under the doors to prevent the leakage of cool air. For the production equipment with a cooling pipe, we installed an insulation layer to prevent energy loss.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Air Emissions

The main sources of air emissions are the exhaust gas from our boilers, volatile compounds of medicines, as well as fume and odor generated from processing of medicine. Due to the consumption of towngas from boilers' operations, the Group generated 0.04 kg and 8.71 kg of sulphur oxides ($SO_x$) and nitrogen oxides ($NO_x$) respectively during the Year.

To minimise the impact of air emissions, we have implemented hydrovents and scrubbers to remove the oil droplets in the fume and the odor before the fume is emitted to the air.

## Water Resources

The water consumption of the Group consists of domestic water used in office and industrial water used in manufacturing process. During the year, the total water consumption amounted to 37,897 tonnes, while the water intensity was 44.81 tonnes per million revenue in HKD. To conserve water resources, the Group's toilets adopt the environmentally-friendly water tanks and automatic water faucet. In our production operation, we reuse the water generated from production process.

## Waste and Effluent

We are aware of the chemical waste generated in the manufacturing process, which may have impact to the environment, such as spent acid, alkali and halogenated solvent, heavy metal-containing fluid, expired drugs and medicines, and other pharmaceutical raw materials. As a responsible and lawful manufacturer, we strictly adhere to relevant laws and regulations regarding waste generation, storage and disposal. We have obtained the license as a waste producer since 2016, complying with the Waste Disposal Ordinance in Hong Kong. Our storage of chemicals is approved by Hong Kong Customs and Excise Department, complying with the Control of Chemicals Ordinance.

At our Chinese medicine factory, the waste generated during laboratory testing is sorted according to its properties and is stored in designated containers. Each container has a clear label stating the materials inside, chemical materials are marked in red. At our Western medicine factory, all collected waste chemicals and medicines are stored in the quality control laboratory or other designated area. All hazardous waste generated is collected by an accredited third party for handling. While non-hazardous waste, which is mostly non-recyclable, is disposed of at landfills. During the year, 1.7 tonnes of hazardous waste and 756.6 tonnes of non-hazardous waste were generated.

Effluents are generated from the cleaning of medicines in the pre-treatment process of herbal medicines. The Group has been granted a license for discharge under the Water Pollution Control Ordinance by the Environmental Protection Department ("EPD"). We ensure the water discharged fulfills all requirements set by the EPD.

## Packaging Materials

The packaging materials for the Group's products consist of paper, plastic, metal and glass, of which metal are the major packaging material. The table below shows the consumption of packaging materials during the year.

| Air emissions | FY2018 |
|---|---|
| Sulphur oxides ($SO_x$) | **0.04 kg** |
| Nitrogen oxides ($NO_x$) | **8.71 kg** |

| Waste | FY2018 |
|---|---|
| Hazardous waste | **1.7 tonnes** |
| Non-hazardous waste | **756.6 tonnes** |

| Packaging material | FY2018 |
|---|---|
| Paper | **49.3 tonnes** |
| Plastic | **42.6 tonnes** |
| Metal | **221.3 tonnes** |
| Glass | **151.7 tonnes** |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## PERFORMANCE DATA SUMMARY

| | | Unit | FY 2018 |
|---|---|---|---|
| **Workforce** | **Total headcount** | | 721 |
| | By Geographical Distribution | | |
| | Hong Kong | | 544 |
| | Mainland China | | 177 |
| | By Age | | |
| | 30 or below | | 119 |
| | 31-50 | | 408 |
| | Above 50 | | 194 |
| | By Gender | | |
| | Male | | 238 |
| | Female | | 483 |
| | By Professional Profile | | |
| | Management staff | | 36 |
| | General staff | | 685 |
| | **Employee Turnover Rate** | | |
| | Total | % | 44.5 |
| | By Age | | |
| | 30 or below | % | 67.2 |
| | 31-50 | % | 42.9 |
| | Above 50 | % | 34.0 |
| | By Gender | | |
| | Male | % | 55.5 |
| | Female | % | 39.1 |
| | **Employee New Hire Rate** | | |
| | Total | % | 47.3 |
| | By Age | | |
| | 30 or below | % | 80.7 |
| | 31-50 | % | 39.7 |
| | Above 50 | % | 42.8 |
| | By Gender | | |
| | Male | % | 56.7 |
| | Female | % | 42.7 |
| **Employee Training** | Total Training Hours | Hours | 3,056 |
| **Health and Safety** | Work-related Accident | | 7 |
| | Lost Days Due to Work-related Injury | Days | 82 |
| | Work-related Fatalities | | 0 |
| | Total Safety Training Hours | Hours | 378 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| | | Unit | FY 2018 |
|---|---|---|---|
| **Community Investment** | Donation | HKD | **2,702,825** |
| **Environment** | Total Energy Consumption | GJ | **24,719** |
| | Intensity* | GJ/HKD ('million) | **29.23** |
| | Electricity in factories | kWh | **6,133,734** |
| | Electricity in offices | kWh | **131,099** |
| | Gas | GJ | **2,166** |
| | Air Emissions | | |
| | $SO_x$ | kg | **0.04** |
| | $NO_x$ | kg | **8.71** |
| | Greenhouse Gas Emissions | $tCO_2e$ | **3,337** |
| | Intensity* | $tCO_2e$/HKD ('million) | **3.95** |
| | Scope I | $tCO_2e$ | **115** |
| | Scope II | $tCO_2e$ | **3,222** |
| | Water Consumption | Tonnes | **37,897** |
| | Intensity* | Tonnes/HKD ('million) | **44.81** |
| | Hazardous Waste | Tonnes | **1.7** |
| | Intensity* | Tonnes/HKD ('million) | **2.01** |
| | Non-hazardous Waste | Tonnes | **756.6** |
| | Intensity* | Tonnes/HKD ('million) | **0.89** |
| | Packaging Materials | Tonnes | **464.9** |
| | Intensity* | Tonnes/HKD ('million) | **0.55** |
| | Paper | Tonnes | **49.3** |
| | Plastic | Tonnes | **42.6** |
| | Metal | Tonnes | **221.3** |
| | Glass | Tonnes | **151.7** |

* *Intensity is computed based on revenue of the Group.*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## HKEX ESG CONTENT INDEX

| KPIs | ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **A. Environmental** | | |
| **Aspect A1** | **Emissions** | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) 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. | Air Emissions;<br>Waste and Effluent |
| **KPI A1.1** | The types of emissions and the respective emissions data. | Air Emissions;<br>Waste and Effluent |
| **KPI A1.2** | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Energy Consumption |
| **KPI A1.3** | Total hazardous waste produced (in tonnes) and, where appropriate, intensity. | Waste and Effluent |
| **KPI A1.4** | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Waste and Effluent |
| **KPI A1.5** | Description of measures to mitigate emissions and results achieved. | Air Emissions |
| **KPI A1.6** | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Waste and Effluent |
| **Aspect A2** | **Use of Resources** | |
| **General Disclosure** | Policies on efficient use of resources including energy, water and other raw materials. | Water Resources;<br>Energy Conservation |
| **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 Consumption |
| **KPI A2.2** | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Water Resources |
| **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 the purpose, water usage efficiency initiatives and results achieved. | The Group does not have issue in sourcing water. |
| **KPI A2.5** | Total packaging materials used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Packaging Materials |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| KPIs | ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **A. Environmental** | | |
| **Aspect A3** | **The Environment and Natural Resources** | |
| **General Disclosure** | Policies on minimising the issuers' significant impact on the environment and natural resources. | Environment |
| **KPI A3.1** | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Environment |
| **B. Social** | | |
| **Aspect B1** | **Employment** | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant 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. | Employment and Labour Practices |
| **Aspect B2** | **Health and Safety** | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer,<br>relating to providing a safe working environment and protecting employees from occupational hazards. | Health and Safety |
| **KPI B2.3** | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Health and Safety |
| **Aspect B3** | **Development and Training** | |
| **General Disclosure** | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Training and Development |
| **Aspect B4** | **Labour Standards** | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to preventing child or forced labour. | Employment and Labour Practices |
| **Aspect B5** | **Supply Chain Management** | |
| **General Disclosure** | Policies on managing environmental and social risks of the supply chain. | 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 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| KPIs | ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **B. Social** | | |
| **Aspect B6** | **Product Responsibility** | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant 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 methods of redress. | Product Excellence |
| **KPI B6.3** | Description of practices relating to observing and protecting intellectual property rights. | Data Privacy |
| **KPI B6.4** | Description of quality assurance process and recall procedures. | Customer Grievance Mechanism |
| **Aspect B7** | **Anti-Corruption** | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) 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 |
| **Aspect B8** | **Community Investment** | |
| **General Disclosure** | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Community Engagement |
| **KPI B8.1** | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Community Engagement |
| **KPI B8.2** | Resources contributed (e.g. money or time) to the focus area. | Community Engagement |

# CORPORATE GOVERNANCE REPORT

“We will continue to review regularly its corporate governance practices to maintain high level of transparency, to enhance our competitiveness and operating efficiency.”

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board recognises that good corporate governance practices serve as an effective risk management for the growth of the Company and will enhance the benefit of its stakeholders. The Company is committed to maintaining a high standard of corporate governance with a strong emphasis on transparency, accountability, integrity and independence.

The Company continued to adopt the principles and comply with the code provision of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The Board has reviewed periodically the compliance of the CG Code and is in the view that throughout the year ended 31 March 2018, the Company has complied with the applicable code provisions of the CG Code.

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as amended from time to time, (the "**Model Code**") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiries by the Company, all of the Directors confirmed that they had complied with the required standards set out in the Model Code throughout the year under review.

In accordance with code provision A.6.4 of the CG Code, the Company also adopted a code of conduct regarding securities transactions on no less exacting terms than the Model Code by the relevant employees of the Group who are considered likely to be in possession of unpublished price sensitive information in relation to the Group. To the best knowledge and belief of the Directors, all relevant employees have complied with the required standard of such code.

# CORPORATE GOVERNANCE REPORT

## BUSINESS MODEL AND STRATEGY

The Group is principally engaged in (i) the manufacturing, processing and retailing of TCM; (ii) the processing and retailing of Western pharmaceutical, health food and personal care products; and (iii) property investment. The Group continues its proactive expansion strategy for generating and preserving shareholder value over the longer term.

With respect to the core Chinese and Western pharmaceutical and health food products business, the Group will further leverage its edge in vertical integration. In order to achieve this objective, the Group is enhancing the effort on new products research, development and registration, especially focus on those Chinese and Western medicinal products which possess their own uniqueness and curative effect. The Group also extends its retail and medical service network aggressively to gain market share. Furthermore, the Group seeks to expand the Chinese herbal plantation base in mainland China to assure quality source of raw materials.

With respect to the property investment business, the Group continues to look for and acquire sizeable and potential retail premises for mitigating the effect of rising rental costs.

On the other hand, the Group will closely monitor the market for merger and acquisition opportunities if it can bring synergy to our existing business, as well as diversification of its investment portfolio for strengthening and broadening its income base. The Group also takes active and prompt measures from time to time, reviewing and adjusting its business strategy and adopting various controls over costs, if necessary, so as to maintain the Group's profitability. Besides, the Group strives to maintain a healthy financing structure and devotes effort to securing banking facilities which is regarded as an important element for supporting continuous business development of the Group.

## THE BOARD

### Composition

The Board currently comprises four executive Directors and four independent non-executive Directors (the "**INEDs**"). The Directors during the year and up to the date of this report were:

**Executive Directors**

Mr. Tang Ching Ho, *SBS, JP (Chairman and Managing Director)*

Mr. Chan Chun Hong, Thomas

Ms. Tang Mui Fun

Ms. Tang Wai Man *(Appointed on 1 April 2018)*

**Independent Non-executive Directors**

Mr. Leung Wai Ho, *MH*

Mr. Siu Man Ho, Simon

Mr. Cho Wing Mou

Mr. Li Ka Fai, David

Ms. Tang Mui Fun is a sister of Mr. Tang Ching Ho, Ms. Tang Wai Man is the daughter of Mr. Tang Ching Ho and the biographical details of the Directors are set out on pages 21 to 22 of this annual report.

# CORPORATE GOVERNANCE REPORT

The Board possesses a mix and balance of skills and experience which are appropriate for the requirements of the businesses of the Company. The opinions raised by the INEDs in Board meetings facilitate the maintenance of good corporate governance practices. As at the date of the annual report, the Board has four INEDs, representing more than one-third of the Board, and at least one of the INEDs has the appropriate professional qualification and/or accounting and audit experience expertise as required by Rules 3.10(1) and (2) and 3.10A of the Listing Rules. A balanced composition of executive and non-executive Directors also generates a strong independent element on the Board, which allows for an independent and objective decision making process for the best interests of the Company and its shareholders. The Company has reviewed the composition of the Board and discussed from time to time to ensure that the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's businesses and to enhance the shareholders' value. All Directors are aware of the required levels of fiduciary duties, care, skill and diligence under Rule 3.08 of the Listing Rules.

In compliance with code provision A.3.2 of the CG Code, an updated list of the Directors identifying their role and function are available on the websites of the Company (http://www.wyth.net) and the Stock Exchange (www.hkexnews.hk). The Company will review the composition of the Board from time to time to ensure that the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business and to enhance the shareholders' value.

## Appointment and Re-election of the Directors

All INEDs are appointed with specific term set out in respective letters of appointment and all of them are subject to retirement by rotation and, being eligible, offer themselves for re-election at annual general meetings in accordance with the bye-laws of the Company (the "**Bye-law(s)**"). All INEDs are appointed for a term of not more than three years. Pursuant to code provisions A.4.2 and the Bye-law 87, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) are required to retire from office by rotation, provided that every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years, and shall be eligible for re-election at each annual general meeting. In addition, any Director who is appointed by the Board to fill casual vacancy or as an addition to the existing Board are subject to re-election at the first general meeting of the Company after his/her appointment.

## Independence of INEDs

The INEDs are required to confirm their independence upon their appointment and on an annual basis. All INEDs are free from any business or other relationship with the Company, except that Mr. Siu Man Ho, Simon is the son of Mr. Siu Yim Kwan, Sidney, an independent non-executive director of Wang On, a substantial and controlling shareholder of the Company. Such relationship will not affect his independence in relation to his position as an INED.

The Company has received from each INED an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules for the year ended 31 March 2018. The INEDs would not participate in the Group's daily operation and they would abstain from voting on any resolution(s) in which he had any interest and, therefore, the Company continues to consider the four INEDs to be independent for the year ended 31 March 2018 and up to the date of this report.

## Roles and Responsibilities of the Board and the Senior Management

The Board is accountable to stakeholders for the activities and performance of the Group and its primary functions cover, among other things, the formulation of overall strategy, the review of corporate and financial policies and the oversight of the management of the Group's business and affairs. Apart from these, the Board reserved for its consideration and decision on major acquisitions and disposals, review of interim and annual financial results, appointments and removals of directors and auditors, the evaluation on the performance and compensation of senior management, any material capital transactions and other significant operational and financial affairs. With a view to maintaining an appropriate balance between authority and responsibility, such functions are either carried out directly by the Board or indirectly through various committees established by the Board, with respective functions set out in their written terms of reference.

# CORPORATE GOVERNANCE REPORT

The INEDs account for diverse industry expertise but are not involved in the day-to-day management of the Group. The general management and day-to-day management are delegated to the management, including but not limited to the preparation of regular financial information, execution of designated assignments and implementation of sustainability practices.

The Directors having material interest in the matter(s) shall abstain from voting at such Board meeting(s) and the INEDs with no conflict of interest shall attend at such meeting to deal with the matter(s).

All Directors ensure that they can give sufficient attention to discharge their responsibilities to the affairs of the Company and the Directors have disclosed to the Company the identity and nature of offices held in any public organisation and other significant commitments from time to time.

During the year under review, regular Board meetings of the Company were held four times to review, consider and approve, among others, annual and interim results and to review the business operations, corporate governance practices and the effectiveness of internal control and risk management systems of the Group. Apart from these regular meetings, Board meetings are also held, as and when necessary, to consider major transactions of the Group. At least 14-day notice for each regular meeting is given to all Directors. All such minutes are kept by the company secretary of the Company and are open for inspection at any reasonable time on reasonable notice by any Director. Apart from the regular Board meetings and pursuant to code provision A.2.7 of the CG code, the chairman of the Board also met with the INEDs without the presence of any executive Director during the year.

## Chairman and Managing Director

During the year under review, the role of the chairman of the Company was being held by Mr. Tang Ching Ho and the role of the Managing Director was being held by Mr. Chan Chun Hong, Thomas. Their roles were separate to reinforce their respective independence and accountability. Their respective responsibilities were clearly segregated and defined in writing by the Board, the chairman of the Company is primarily responsible for the overall strategic planning, management and leadership of the Board and ensuring all Directors receive accurate and timely information, while the functions of a managing Director is responsible for the day-to-day business management and implementation of the business strategies adopted by the Board.

After the reporting period and with effect from 1 April 2018, Mr. Tang Ching Ho, the chairman and executive Director, has also assumed the role of the Managing Director and Mr. Chan Chun Hong, remained as executive Director but no longer took the role of Managing Director, which is of great value in enhancing the efficiency to cope with the recent fierce competitive retailing market and the communication between the Board and the management, so as to ensure the effective execution of the Board's strategies. Furthermore, the Board considers that Mr. Tang is an executive of high caliber with a wide range of skills and diversified business expertise and there are various committee and experienced individuals dealing with specific assignments and managing the daily business operations. Moreover, the Board comprises four executive Directors and four independent non-executive Directors with balance of skills and experience appropriate for the Group's further development. The Company will continue to review and monitor the effectiveness of such deviation to ensure the maximisation of the benefit of the stakeholders of the Company.

## Corporate Governance

The Board has undertaken the responsibility for performing the corporate governance duties pursuant to code provision D.3.1 of the CG Code and is committed to ensuring that an effective governance structure is in place to continuously review, monitor and improve the corporate governance practices within the Group with regard to the prevailing legal and regulatory requirements.

The Board has adopted a Board diversity policy (the "**Board Diversity Policy**") stipulating the composition of the Board, reviewing the policies and measures on the Group's corporate governance, reviewing a code of conduct applicable to the Directors and employees, monitoring the Company's legal and regulatory compliance, training and continuing professional development of Directors and reviewing the Company's compliance with the CG Code and the disclosure in this report.

This corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

# CORPORATE GOVERNANCE REPORT

### Board Diversity

The Company notes increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives, sustainable and balanced development. In June 2013, the Company adopted the Board Diversity Policy which sets out the approach to diversify the Board and was reviewed annually. The nomination committee of the Company reviews and assesses the Board composition on behalf of the Board and will recommend the appointment of new Director, when necessary, pursuant to the Board Diversity Policy.

In designing the Board's composition, the Board diversity has been considered from a number of aspects, including but not limited to, gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The nomination committee of the Company will also consider factors based on the Company's business model, specific needs and meritocracy from time to time in determining the optimum composition of the Board.

During the year under review, the Board comprises seven Directors, including three executive Directors and four INEDs, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of professional experience, skills and knowledge.

Having reviewed the Board Diversity Policy and the Board's composition, the nomination committee of the Company is satisfied that the requirements set out in the Board Diversity Policy had been met.

### Continuous Professional Development

All Directors are encouraged to participate in continuous professional development so as to develop and refresh Directors' knowledge and skills and to ensure that their contribution to the Board remains informed and relevant. The company secretary of the Company regularly circulates training materials or briefings to all Directors in respect of the updates on, among other things, the Listing Rules, the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") or other useful guidelines, the Companies Ordinance and financial or accounting standards which may be of the interest to the Directors and benefit for them to discharge their duties.

In addition, the company secretary of the Company also provides and circulates the Directors with monthly and regular updates relating to the Group's business, financial position and business environment, in which the Group operates. During the year, all Directors have complied with the code provisions in relation to continuous professional development. Apart from reading materials relevant to the Company's business, the updated rules and regulation and other director's duties and responsibilities by all Directors, Mr. Chan Chun Hong, Thomas, Ms. Tang Mui Fun, Mr. Siu Man Ho, Simon and Mr. Li Ka Fai, David also attended and/or gave presentation in seminars and/or forums.

The company secretary of the Company updates Directors constantly on the latest developments regarding the Group's business and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year, all Directors have provided to the Company with their training records on a regular basis, and such records have been maintained by the company secretary of the Company for accurate and comprehensive record keeping.

### Liability Insurance for the Directors

The Company has arranged for appropriate directors and officers liability insurance to indemnify its Directors against liabilities arising out of legal action on corporate activities. Such insurance coverage was reviewed and renewed with consultant advice on an annual basis.

## BOARD COMMITTEES

The Board has established various committees including executive committee (the "**Executive Committee**"), audit committee (the "**Audit Committee**"), remuneration committee (the "**Remuneration Committee**") and nomination committee (the "**Nomination Committee**"), each of which has the specific written terms of reference that will be reviewed and updated, where necessary. Copies of minutes of all meetings and resolutions of the committee meetings are kept by the company secretary of the Company and open for inspection at any reasonable time on reasonable notice by any Director. Each committee is required to report to the Board on its decisions and recommendations, where appropriate.

# CORPORATE GOVERNANCE REPORT

## Executive Committee

The Executive Committee has been established since 2005 with specific written terms of reference setting out authorities delegated by the Board and is responsible for general management, supervising the day-to-day management, performance and operations in accordance with the business strategy and keeping under review strategy and business development initiatives of the Group and monitoring their implementation. During the year under review, the Executive Committee comprises three members, namely, Mr. Tang Ching Ho, Mr. Chan Chun Hong, Thomas and Ms. Tang Mui Fun, of which Mr. Tang Ching Ho takes the chair. Immediately after the reporting period, Ms. Tang Wai Man was appointed as an executive Director and an additional member of the Executive Committee.

## Audit Committee

The Audit Committee has been established with specific written terms of reference stipulating its authorities and duties in compliance with Rule 3.21 of the Listing Rules, which are available on the websites of the Company and the Stock Exchange. Currently, the Audit Committee comprises four INEDs, namely, Mr. Li Ka Fai, David, Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou. Mr. Li Ka Fai, David was elected as the chairman of the Audit Committee.

The functions of the Audit Committee is, among other things, to assist the Board to review and monitor the financial reporting independently, including interim and final results, to supervise over the Group's internal control and risk management systems, to monitor the internal and external audit functions, the appointment, reappointment and removal of the auditors and to make relevant recommendations to the Board to ensure effective and efficient operation and reliable reporting. The functions of the Audit Committee will be reviewed regularly by the Board and amended from time to time, as and when appropriate, in order to be in compliance with the code provisions of the CG Code (as amended from time to time) so as to ensure that the management has discharged its duty to have an effective internal control and risk management systems including the adequacy of resources, qualifications and experience of staff to implement the Group's accounting, internal audit and financial reporting function.

The Audit Committee is provided with sufficient resources to discharge its duties and may access to independent professional advice according to the Company's policy, if considered necessary.

During the year under review, the Audit Committee members met twice with the external auditors and the Group's senior management to discuss and review, among other things, the following matters:

(a) the annual results for the year ended 31 March 2017 and the interim results for the six-month ended 30 September 2017 to ensure the full, complete and accurate disclosure in the aforesaid financial statements pursuant to the accounting standards and other legal requirement for presenting the same to the Board for approval;

(b) the term and remuneration for the appointment of Ernst & Young as external auditors to perform the agreed-upon procedures of the final results for the year ended 31 March 2017 and the general review on the interim results for the six months ended 30 September 2017;

(c) the term and remuneration for the appointment of external auditors to perform non-audit services, other special corporate projects and review the overall significant control system;

(d) the independence of the external auditors especially for those non-audit services;

(e) the continuing connected transactions of the Group;

(f) the overall effectiveness of internal control and risk management systems; and

(g) the adequacy of resources, qualifications and experience of staff and the accounting, internal audit and financial reporting matters and their training programmes and budget.

The Audit Committee is satisfied with, *inter alia*, the audit fees, effectiveness of the audit process, independence and objectivity of the external auditors and has recommended to the Board the re-appointment of Ernst & Young as the Company's external auditors for the ensuing year at the forthcoming annual general meeting of the Company.

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

The Board has established the Remuneration Committee since September 2005 with specific written terms of reference, as revised from time to time, stipulating its authorities and duties, which are available on the websites of the Company and the Stock Exchange. It currently consists of five members, including Messrs. Siu Man Ho, Simon, Cho Wing Mou, Leung Wai Ho, Tang Ching Ho and Chan Chun Hong, Thomas, a majority of whom are INEDs. Mr. Siu Man Ho, Simon was elected as the chairman of the Remuneration Committee.

The Remuneration Committee is provided with sufficient resources to discharge its duties and may access to independent professional advice in accordance with the Company's policy and its written terms of reference, if considered necessary.

The roles and functions of the Remuneration Committee are as follows:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing a remuneration policy on the basis of basic salary and allowances, discretionary bonus and share options;

(b) to review and approve the senior management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including but not limited to, benefits in kind, pension rights and compensation payments for loss or termination of their office or appointment;

(d) to make recommendations to the Board on the Directors' fee of the INEDs with reference to the range of remuneration of other non-executive Directors in the similar industry and allow any out-of-pocket expenses incurred in connection with the performance of their duties;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(f) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

During the year under review, the Remuneration Committee held two meetings, in which it reviewed the existing remuneration policies and the new remuneration package to Ms. Tang Wai Man by reference with the market research, communicated with the chairman and managing Director, recommended amendments to the existing remuneration policies and performance-based bonus and approved the remuneration package and performance-based bonus paid to the other Directors and senior management of the Company. No Director took part in any discussion about his own remuneration.

The Remuneration Committee has discharged or will continue to discharge its major roles to, among other things, approve the terms of the service agreements of the Directors and the senior management, make recommendations with respect to the remuneration and policies of the Directors and senior management of the Company and to review the remuneration package and recommend salaries, bonuses, including the incentive awards for Directors and senior management.

Details of the Directors' remuneration are set out in note 8 to the financial statements. In addition, pursuant to the code provision B.1.5 of the CG Code, the annual remuneration of other members of the senior management by bands for the year ended 31 March 2018 is set out below:

| Remuneration to the senior management by bands | Number of individual |
|---|---|
| below HK$500,000 | 1 |
| HK$500,001 to HK$1,000,000 | 1 |
| HK$1,000,001 to HK$1,500,000 | 2 |

After the reporting period, Mr. Chan Chun Hong, Thomas ceased to act as a member of the Remuneration Committee and Ms. Tang Wai Man will act as a member of the Remuneration Committee.

# CORPORATE GOVERNANCE REPORT

## Nomination Committee

The Nomination Committee has been established since September 2005 with specific written terms of reference, as revised from time to time, stipulating its authorities and duties, which are available on the websites of the Company and the Stock Exchange. It currently consists of five members, including Messrs. Cho Wing Mou, Siu Man Ho, Simon, Leung Wai Ho, Tang Ching Ho and Chan Chun Hong, Thomas, a majority of whom are INEDs. Mr. Cho Wing Mou is elected as the chairman of the Nomination Committee.

The roles and functions of the Nomination Committee are as follows:

(a) to review and evaluate the structure, size and composition (including diversity, skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) to assess the independence of INEDs;

(d) to monitor the continuous professional development of the Directors;

(e) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for directors, in particular the chairman and the chief executive;

(f) where the Board proposes a resolution to elect an individual as an INED at the general meeting, the Nomination Committee should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe the individual should be elected and the reasons why they consider the individual to be independent; and

(g) the chairman or another member of the Nomination Committee shall attend the Company's annual general meetings and be prepared to respond to questions raised by shareholders on the Committee's activities and responsibilities.

The Nomination Committee is provided with sufficient resources to discharge its duties and may access to independent professional advice according to the Board Diversity Policy and its written terms of reference, if considered necessary.

During the year under review, the Nomination Committee held two meetings, in which it determined the criteria and procedures for retirement by rotation and recommended to the Board for re-appointment of Ms. Tang Mui Fun, Mr. Leung Wai Ho and Mr. Siu Man Ho, Simon at the forthcoming annual general meeting. The Nomination Committee also reviewed the Board Diversity Policy and evaluated the Board performance and succession planning. Furthermore, the Nomination Committee also reviewed, discussed and recommended the appointment of Ms. Tang Wai Man as the new executive Director.

On 1 April 2018, Ms. Tang Wai Man was appointed to act as a member of the Nomination Committee and Mr. Chan Chun Hong, Thomas ceased to act as a member of the Nomination Committee.

## ATTENDANCE OF DIRECTORS AT VARIOUS MEETINGS

Details of the attendance of individual Directors at Board meetings, committee meetings and shareholder meetings held during the year ended 31 March 2018 are as follows:

| Name of Directors | Board | Audit Committee | Remuneration Committee | Nomination Committee | Annual general meeting | General meeting |
|---|---|---|---|---|---|---|
| Tang Ching Ho | 4/4 | N/A | 2/2 | 2/2 | 1/1 | 0/1 |
| Chan Chun Hong, Thomas | 4/4 | N/A | 2/2 | 2/2 | 1/1 | 1/1 |
| Tang Mui Fun | 4/4 | N/A | N/A | N/A | 1/1 | 0/1 |
| Leung Wai Ho | 2/4 | 2/2 | 0/2 | 0/2 | 1/1 | 0/1 |
| Siu Man Ho, Simon | 4/4 | 2/2 | 2/2 | 2/2 | 1/1 | 0/1 |
| Cho Wing Mou | 4/4 | 2/2 | 2/2 | 2/2 | 1/1 | 0/1 |
| Li Ka Fai, David | 4/4 | 2/2 | N/A | N/A | 1/1 | 1/1 |

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is overall responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group established and maintained appropriate and effective risk management and internal control systems covering financial, operational, compliance and risk management aspects.

The Audit Committee reviews the risk management and internal controls that are significant to the Group on an on-going basis. The Audit Committee would consider the adequacy of resource, qualifications and experience and training of staff and external advisor of the Group's accounting, internal audit and financial reporting function.

The management of the Group is responsible for designing, maintaining, implementing and monitoring of the risk management and internal control system to ensure adequate control in place to safeguard the Group's assets and stakeholder's interest. The management may report from time to time any finding, recommendation and remedies to the Audit Committee.

The Group has established risk management procedures to address and handle the all significant risks associate with the businesses of the Group. The Board would perform an annual or periodical review on any significant change of the business environment and establish procedures to response the risks result from the significant change of business environment.

The management would identify the risks associate with the businesses of the Group by considering both internal and external factors and events which include political, economic, technology, environmental, social and staff. Each of risks has been assessed and prioritised based on their relevant impact and occurrence opportunity. The relevant risk management strategy would be applied to each type of risks according to the assessment results, type of risk management strategy has been listed as follow:

– Risk retention and reduction: accept the impact of risk or undertake actions by the Group to reduce the impact of the risks;

– Risk avoidance: change business process or objective so as to avoid the risk; and

– Risk sharing and diversification: diversify the effect of the risk or allocate to different location or product or market.

The internal control systems are designed and implemented to reduce the risks associated with the business accepted by the Group and minimise the adverse impact results from the risks. The risk management and internal control system are design 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.

### Review of Risk Management and Internal Control

During the year under review, the Group has engaged an external advisory firm to undertake the internal audit function to ensure the effectiveness and efficiency of the risk management and internal control system of the Group. All findings and recommendations on internal control deficiencies were communicated with the Audit Committee and the Board. The management confirmed that there is no significant deficiency and weakness on the internal control system has been identified by the external advisory firm for the year ended 31 March 2018.

The Board conducted an annual review on the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance and it was considered that the internal controls and risk management functions were reasonably effective and adequate for the year ended 31 March 2018.

# CORPORATE GOVERNANCE REPORT

## EXTERNAL AUDITORS' REMUNERATION

The remuneration paid/payable to the Company's external auditors, Ernst & Young, for the year ended 31 March 2018 which has been reviewed and approved by the Audit Committee, are set out as follows:

| Services rendered for the Group | Fees paid/payable to Ernst & Young (HK$ '000) |
|---|---|
| Audit services: | |
| - annual financial statements | 2,400 |
| Non-audit services: | |
| - agreed-upon procedures | 260 |
| - Taxation and professional services | 354 |
| - other professional services | 1,335 |
| **Total** | 4,349 |

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparation and publication of the timely financial statements and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. In preparing the accounts for the year ended 31 March 2018, the Directors have adopted suitable accounting policies which are pertinent to the Group's operations and relevant to the financial statements and have presented an understandable assessment of the Group's position and prospects.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, the accounts are prepared on a going concern basis and they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. The Directors continue to explore any opportunities with potential investors to enhance its financial position and business development of the Group by way of refinancing, extension of borrowings and/or fund raising.

A statement by the auditor about their reporting responsibilities is set out on pages 66 to 71 of this annual report.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group continues to commit to comply with the relevant laws and regulations, such as the Bermuda Companies Act 1981, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Securities and Futures Ordinance, the Listing Rules and other rules and regulations implemented in relevant jurisdictions. As far as the Board is concerned, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 March 2018.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to enhancing and strengthening efforts on environmental protection, so as to facilitate industrial upgrading. We proactively implement environmental protection policies, gradually adjust its portfolio, conduct energy-saving, using recycled paper, emission reduction and pollution prevention and so forth. The Group not only improved the quality management system but also strengthened the quality of the audit to ensure the quality and safety of Chinese and western pharmaceutical project control. During the year under review, there was no material non-compliance with applicable laws and regulations by the Group that have significant impact on the business and operations of the Group.

# CORPORATE GOVERNANCE REPORT

## INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company aims at promoting and maintaining effective communications with shareholders and investors (both individuals and institutions) (collectively the "**Stakeholders**") to ensure that the Group's information is disseminated to Stakeholders in a timely manner and enable them to have a clear assessment of the enterprise performance. A shareholders communication policy has been adopted by the Company and the same is available on the website of the Company. Other major means of communications includes:

### Disclosures in Corporate Website

Extensive information on the Group's activities and financial position will be disclosed in the annual reports, interim reports, announcements, circulars and other corporate communications which will be sent to shareholders and/or published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.wyth.net). Other inside information is released by way of formal public announcements as required by the Listing Rules and Inside Information Provisions under Part XIVA of the SFO.

### General Meeting with Shareholders

The Company also acknowledges that annual general meetings and various general meetings are valuable forums for the Board to communicate directly with the shareholders. Members of the Board and the members of various committees are encouraged to attend and answer questions at such general meetings.

In order to let shareholders to make an informed decision at the general meetings, sufficient notices with not less than 10 clear business days for every general meeting and 20 clear business days for every annual general meeting were given to the shareholders of the Company pursuant to code provision E.1.3 of the CG Code, the Bye-laws and any other applicable laws. The chairman will explain the detailed procedures for conducting a poll vote during the proceedings of meetings and answered all questions raised by shareholders. All resolutions put to vote at general meetings are taken by poll and the poll results are posted on the websites of the Company and the Stock Exchange immediately following the holding of the general meetings.

### Investor Relations

The Group also has a proactive investor relations programme that keeps investors and shareholders abreast the Group's latest development and discloses relevant information to the public in a timely manner. During the year, we held various meetings with investors and participated in investor and press conferences.

### Shareholders' Rights Convening a Special General Meeting

Pursuant to Section 74 of the Bermuda Companies Act 1981 (the "**Companies Act**") and bye-law 58 of the Bye-laws, the Board whenever it thinks fit call special general meetings and shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the company secretary of the Company to require a special general meeting (the "**SGM**") to be called by the Board. The written requisition (i) must state the purposes of the SGM, and (ii) must be signed by the requisitionists and deposited at the principal place of business of the Company in Hong Kong at Suite 3101, 31/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong for attention of the Board or the company secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. Such meeting shall be held within two (2) months after the deposit of such requisition.

Such requisitions will be verified by the Company's share registrars and upon their confirmation that the requisition is proper and in order, the company secretary of the Company will inform the Board to convene a SGM by serving sufficient notice to all shareholders of the Company. On the contrary, if the requisition has been verified as not in order, the requisitionists will be advised of this outcome and accordingly, the SGM will not be convened as requested.

If the Board does not within 21 days from the date of the deposit of the requisition proceed duly to convene a SGM, the requisitionists or any of them representing more than one half of the total voting rights of all of them may convene a SGM in accordance with the provisions of Section 74(3) of the Companies Act, but any SGM so convened shall not be held after expiration of three months from the said date of deposit of the requisition. A SGM convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in any SGM to be convened by the Board.

# CORPORATE GOVERNANCE REPORT

## Putting Forward Proposals at General Meetings

Pursuant to Sections 79 and 80 of the Companies Act, either any number of shareholders representing not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, or not less than 100 shareholders, can request the Company in writing to (a) give to shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition signed by all the requisitionists must be deposited at the Company's principal place of business in Hong Kong at Suite 3101, 31/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong or the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with a sum reasonably sufficient to meet the Company's relevant expenses and not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in case of any other requisition.

## Proposing a Person for Election as a Director

The procedures for proposing candidate(s) for election as director(s) at a general meeting are set out in the "Corporate Governance" under section headed under "Corporate Profile" on the website of the Company at *http://www.wyth.net.*

## Enquiries to the Board

Shareholders may send their enquiries and concerns to the Board in writing by email to (contact@waiyuentong.com) or by addressing their enquiries to the Board or the company secretary in the following manners:

**In respect of the corporate affairs:**

The Board/Company Secretary/Corporate Affairs & Investor Relations Manager
Wai Yuen Tong Medicine Holdings Limited
Suite 3101, 31/F., Skyline Tower
39 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

**In respect of the other shareholding/entitlement affairs:**

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

# CORPORATE GOVERNANCE REPORT

## WHISTLEBLOWING POLICY

The Company has adopted a whistleblowing policy to facilitate the achieving of high possible standards of openness, probity and accountability. Procedures are formulated to enable individual employees to disclose internally and at a high level, information which the individual believes that it shows malpractice or impropriety within the Group. During the year under review, no incident of fraud or misconduct was reported from employees that have material effect on the Group's financial statements and overall operations.

## COMPANY SECRETARY

Ms. Mak Yuen Ming, Anita, who was appointed as a full-time employee company secretary of the Group, reports directly to the Board and is responsible for, inter alia, providing updated and timely information to all Directors from time to time.

During the year ended 31 March 2018, Ms. Mak has complied with Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training.

## CORPORATE SOCIAL RESPONSIBILITY

The Group is conscious of its role as a socially responsible group of companies. It has made donations for community wellbeing from time to time, supports the communities and encourages its employees to participate in any charitable events and caring services.

## CONSTITUTIONAL DOCUMENT

During the year ended 31 March 2018, there was no change in the constitutional document.

The memorandum of association and the amended and restated bye-laws are available on the websites of the stock exchange and the company at (www.hkex.com.hk) and (http://www.wyth.net), respectively.

## CONCLUSION

Going ahead, the Group will continue to review regularly its corporate governance practices to maintain high level of transparency, to enhance the Company's competitiveness and operating efficiency and to ensure its sustainable development and to generate greater returns for the Stakeholders.

# REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 March 2018.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries comprise the production and sale of traditional Chinese and Western pharmaceutical products, health food, personal care products and property investment. During the year, there were no significant changes in the nature of the Group's principal activities.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2018 and the Group's financial position at that date are set out in the consolidated financial statements on pages 72 to 144.

For the year ended 31 March 2018, the Group's revenue increased by approximately 14.5% to approximately HK$845.8 million (2017: approximately HK$738.4 million). The Group recorded a loss attributable to owners of the parent amounting to approximately HK$115.6 million (2017: approximately HK$93.3 million).

The Board does not recommend the payment of a final dividend for the year ended 31 March 2018 (2017: Nil). No interim dividend was made for the six months ended 30 September 2017 (for the six month ended 30 September 2016: Nil).

## BUSINESS REVIEW AND ANALYSIS OF KEY FINANCIAL PERFORMANCE INDICATORS

The business review and the key financial performance indicators to the businesses of the Group, including, among other things, the information set out below, are disclosed in the "Management Discussion and Analysis" on pages 10 to 19 of this annual report:-

(a) a fair review of the Group's business;

(b) principal risk factors;

(c) an analysis using financial key performance indicators;

(d) key relationships with its employees, suppliers and customers; and

(e) future development in the Group's business.

The environmental policies and performance of the Group are disclosed in the Environmental, Social and Governance Report set out on page 24 to 39 of this annual report.

As far as the Board is concerned, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 March 2018.

## SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 March 2018 are set out on note 1 to the financial statements.

## SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in share capital and share option scheme of the Company during the year under review, together with the reasons therefor, are set out in notes 27 and 28 to the financial statements, respectively.

# REPORT OF THE DIRECTORS

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 146 of this annual report. This summary does not form part of the audited financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2018.

## PERMITTED INDEMNITY PROVISION

The Bye-laws provides that for the time being acting in relation to any of the affairs of the Company, every Director and other officers shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, losses, damages and expenses which they may incur or sustain by or by reason of any act done about the execution of the duties of their respective offices or otherwise in relation thereto. The Company had arranged appropriate directors' and officers' liability insurance coverage for the Directors and other officers of the Group for the year.

## DISTRIBUTABLE RESERVES

At 31 March 2018, the Company's reserves available for distribution to equity holders of the parent, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$287.0 million (2017: approximately HK$276.1 million) which represented the net balance of contributed surplus of approximately HK$275.7 million (2017: approximately HK$275.7 million) and retained profits of approximately HK$11.3 million (2017: approximately HK$0.4 million).

## DIRECTORS

The Directors during the year were:

### Executive Directors

Mr. Tang Ching Ho, *SBS, JP, Chairman*

Mr. Chan Chun Hong, Thomas, *Managing Director*

Ms. Tang Mui Fun

### Independent Non-executive Directors

Mr. Leung Wai Ho, *MH*

Mr. Siu Man Ho, Simon

Mr. Cho Wing Mou

Mr. Li Ka Fai, David

Immediately after the reporting period, on 1 April 2018, Ms. Tang Wai Man was appointed as the executive Director. Mr. Chan Chun Hong, Thomas ceased to act as the Managing Director, but will remain as an executive Director and Mr. Tang Ching Ho has also assumed the role of Managing Director, apart from being acted as the chairman and executive Director.

# REPORT OF THE DIRECTORS

In accordance with Bye-law 87 of the Bye-laws, Ms. Tang Mui Fun, Mr. Leung Wai Ho and Mr. Siu Man Ho, Simon will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence from all INEDs, namely Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon, Mr. Cho Wing Mou and Mr. Li Ka Fai, David, and as at the date of this report still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 23 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

No Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in notes 8 and 35 to the financial statements, no Directors nor a connected entity of a Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, the holding company of the Company or any of its subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTOR'S INTEREST IN COMPETING BUSINESS

None of the Directors nor their respective associates had an interest in a business, apart from the businesses of the Group, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2018, the interests and short positions of the Directors and chief executive of the Company and/or any of their respective associates 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), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code under Listing Rules, were as follows:

### (a) Long positions in the ordinary shares of the Company:

| **Name of Director** | **Number of shares** | **Approximate percentage of the Company's total issued share capital** % |
|---|---|---|
| Mr. Tang Ching Ho *(Note 1)* | 715,322,940 | 56.54 *(Note 2)* |

### (b) Long positions in the ordinary shares of Wang On, an associated corporation of the Company:

| **Name of Director** | **Name of corporation** | **Number of shares** | **Approximate percentage of Wang On's total issued share capital** % |
|---|---|---|---|
| Mr. Tang Ching Ho *(Note 1)* | Wang On | 9,984,356,772 | 52.75 *(Note 3)* |

Notes:

(1) Under the SFO, Mr. Tang Ching Ho is taken to be interested in the interests of the Company as he is taken to be interested in an aggregate of 9,984,356,772 shares in Wang On, representing approximately 52.75% of all the issued Wang On's shares, by virtue of his own beneficial shareholding, the shareholding interests of his spouse in Wang On, the shareholding interests of a company wholly and beneficially owned by him, and his deemed interests by virtue of being the founder of Tang's Family Trust. Wang On is taken to be interested in the interests in shares held by Rich Time Strategy Limited ("**Rich Time**"). Rich Time, an indirectly wholly-owned subsidiary of Wang On, which was the beneficial owner of 715,322,940 shares of the Company. Therefore, Mr. Tang Ching Ho was deemed to be interested in 715,322,940 shares of the Company held by Wang On for the sole purpose of Part XV of the SFO.

(2) The percentage represented the number of shares over the total number of issued shares of the Company as at 31 March 2018 was 1,265,142,888 shares.

(3) The percentage represented the number of shares over the total number of issued shares of Wang On as at 31 March 2018 was 18,928,520,047 shares.

# REPORT OF THE DIRECTORS

## (c) Long positions in underlying shares of share options of the Company:

| Name of Director | Date of grant | Exercise price per share HK$ | Number of share options outstanding | Exercisable period *(Note 4)* | Number of underlying shares | Approximate percentage of the Company's total issued share capital *(Note 5)* % |
|---|---|---|---|---|---|---|
| Ms. Tang Mui Fun | 8.1.2009 | 20.6927 | 4,554 | 8.1.2010 - 7.1.2019 | 4,554 | 0.0004 |

## (d) Long positions in underlying shares of share options of Easy One, an associated corporation of the Company:

| Name of Director | Date of grant | Exercise price per share HK$ | Number of share options outstanding | Exercisable period | Number of underlying share | Approximate percentage of Easy One's total issued share capital *(Note 6)* % |
|---|---|---|---|---|---|---|
| Mr. Chan Chun Hong, Thomas | 23.2.2018 | 0.48 | 4,600,000 | 23.02.2018 - 22.02.2025 | 4,600,000 | 0.83 |

Notes:

(4) On the 1st anniversary of the date of grant: 30% vested
On the 2nd anniversary of the date of grant: Further 30% vested
On the 3rd anniversary of the date of grant: Remaining 40% vested

(5) The percentage represented the number of shares over the total issued share capital of the Company as at 31 March 2018 was 1,265,142,888 shares.

(6) The percentage represented the number of shares over the total issued share capital of Easy One as at 31 March 2018 was 556,432,500 shares.

Save as disclosed above, as at 31 March 2018, none of the Directors and chief executive of the Company and/or any of their respective associates had registered an interest or 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), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME

At the annual general meeting of the Company held on 22 August 2013, the shareholders of the Company approved the termination of the share option scheme previously adopted by the shareholders of the Company at the special general meeting held on 18 September 2003 (the "**2003 Scheme**") and the adoption a new share option scheme (the "**2013 Scheme**") for the primary purpose of providing incentive and rewards to eligible participants who contribute to the success of the Group's operations. Upon termination of the 2003 Scheme, no share options was granted thereunder but the subsisting share options granted prior to the termination will continue to be valid and exercisable during the prescribed exercisable period in accordance with the terms of the 2003 Scheme. The 2013 Scheme became effective on 22 August 2013 and, unless otherwise terminated earlier by shareholders at a general meeting, will remain in force for a period of 10 years from that date.

Pursuant to the 2013 Scheme, share options may be granted to any Director or proposed Director (whether executive or nonexecutive, including INEDs), employee or proposed employee (whether full-time or part-time), secondee, any holder of securities issued by any member of the Group, any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any substantial shareholder or company controlled by a substantial shareholder, or any company controlled by one or more persons belonging to any of the above classes of participants (the "**Participants**").

Under the 2013 Scheme, the Board may grant share options to the Participants to subscribe for shares of the Company for a consideration of HK$1.00 for each lot of share options granted which must be accepted within 30 days from the offer date. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to the 2013 Scheme, the maximum number of share options that may be granted under the 2013 Scheme and any other share option schemes of the Company is the number, upon their exercise, not in aggregate exceeding 30% of the issued share capital of the Company from time to time, excluding any shares issued on the exercise of share options. The total number of shares which may be issued upon exercise of all options to be granted under the 2013 Scheme and any other schemes shall not in aggregate exceed 10% of the number of shares in issue, as at the date of approval of the 2013 Scheme limit, which was refreshed at the last annual general meeting held on 20 August 2015.

The maximum number of shares issuable under share options to each Participant (except for a substantial shareholder or an INED or any of their respective associates) under the 2013 Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time. Any further grant of share options in excess of such limit must be separately approved by shareholders with such Participant and his associates abstaining from voting. Share options granted to a Director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the INEDs (excluding any INED who is the grantee of the option). Where any grant of share options to a substantial shareholder or an INED (or any of their respective associates) will result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2013 Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant representing in aggregate over 0.1% of the shares in issue, and having an aggregate value, based on the closing price of the Company's shares at each date of grant, in excess of HK$5 million, such further grant of share options is required to be approved by shareholders in a general meeting in accordance with the Listing Rules. Any change in the terms of a share option granted to a substantial shareholder or an INED (or any of their respective associates) is also required to be approved by shareholders. The exercise price must be at least the higher of (i) the official closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange on the offer date which must be a business day; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

# REPORT OF THE DIRECTORS

Details of the movements of the share options under the 2003 Scheme during the year ended 31 March 2018 were as follows:

| Name or category of Participant | Number of share options: Outstanding as at 1 April 2017 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31 March 2018 | Date of grant | Exercise price per share HK$ | Exercisable period *(Note)* |
|---|---|---|---|---|---|---|---|---|
| Executive Director | | | | | | | | |
| Ms. Tang Mui Fun | 4,554 | — | — | — | 4,554 | 8.1.2009 | 20.6927 | 8.1.2010 - 7.1.2019 |
| | 4,554 | — | — | — | 4,554 | | | |
| Other employees | | | | | | | | |
| In aggregate | 16,677 | — | — | (1,401) | 15,276 | 8.1.2009 | 20.6927 | 8.1.2010 - 7.1.2019 |
| | 26,346 | — | — | (7,006) | 19,340 | 12.5.2010 | 7.4197 | 12.5.2011 - 11.5.2020 |
| | 43,023 | — | — | (8,407) | 34,616 | | | |
| | 47,577 | — | — | (8,407) | 39,170 | | | |

*Note:*
The share options granted under the 2003 Scheme were vested as follows:

| | |
|---|---|
| On the 1st anniversary of the date of grant: | 30% vested |
| On the 2nd anniversary of the date of grant: | Further 30% vested |
| On the 3rd anniversary of the date of grant: | Remaining 40% vested |

During the year under review, no share option was granted and outstanding under the 2013 Scheme and no share options under the 2003 Scheme were exercised or cancelled and 8,407 share options lapsed during the year.

At the end of the reporting period, the Company had 39,170 share options outstanding under the 2003 Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 39,170 additional ordinary shares of the Company and additional share capital of HK$391.7 and share premium of HK$553,441.5 (before expenses).

As at the date of this report, the total number of shares available for issue under the 2013 Scheme is 126,514,288 shares, representing 10.0% of the Company's total issued share capital.

Other particulars of the 2003 Scheme and the 2013 Scheme are set out in note 28 to the financial statements.

# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' interests and short positions in shares, underlying shares or debentures of the Company and its associated corporations" and "Share option scheme" above and in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares, or underlying shares in, or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2018, to the best knowledge of the Directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following shareholders (other than Directors or chief executive of the Company) had notified the Company and the Stock Exchange of relevant interests and short positions in the shares and underlying shares of the Company:

**Long positions in the shares of the Company:**

| Name of shareholders | Number of shares | Approximate percentage of the Company's total issued share capital *(Note 3)* % |
|---|---|---|
| Rich Time *(Note 1)* | 715,322,940 | 56.54 |
| Wang On Enterprises (BVI) Limited ("**WOE**") *(Note 1)* | 715,322,940 | 56.54 |
| Wang On *(Note 1)* | 715,322,940 | 56.54 |
| Ms. Yau Yuk Yin *(Note 2)* | 715,322,940 | 56.54 |

Notes:

1. Rich Time, a wholly-owned subsidiary of WOE, which is a wholly-owned subsidiary of Wang On, beneficially owned 715,322,940 shares of the Company. WOE and Wang On are taken to be interested in 715,322,940 shares of the Company held by Rich Time.

2. Ms. Yau Yuk Yin is taken to be interested in the shares in which her spouse, Mr. Tang Ching Ho, was interested as stated above in the sub-paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares or debentures of the Company and its associated corporations".

3. The percentage represented the number of shares over the total number of issued shares of the Company as at 31 March 2018 of 1,265,142,888 shares.

Save as disclosed above, as at 31 March 2018, there were no other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

# REPORT OF THE DIRECTORS

## CONTINUING CONNECTED TRANSACTIONS

During the year, the following transactions continued to be the continuing connected transactions for the Company under Rules 14A.55 and 14A.56 of the Listing Rules:

(a) on 18 February 2015, Wai Yuen Tong (Retail) Limited ("**WYTR**"), a subsidiary of the Company as a tenant, and Oriental Sino Investments Limited ("**Oriental Sino**"), a then wholly-owned subsidiary of Wang On, as a landlord, entered into a tenancy agreement to rent a shop located at Shop AB on Ground Floor, Po Wing Building, Nos. 61, 63, 65, 67, 71 & 73 Lee Garden Road, Nos. 108, 110, 112, 116, 118 & 120 Percival Street, Hong Kong for a term of three years commencing from 16 February 2015 and expiring on 15 February 2018 at a monthly rental of HK$900,000, with an option exercisable by WYTR to renew the tenancy for further three years at the monthly rental of HK$1,020,000, details of which were set out in the announcement of the Company dated 18 February 2015. During the financial year, total annual rental paid by WYTR to Oriental Sino under the abovementioned tenancy was HK$9,482,143.

(b) on 19 September 2016, Daywin Limited, an indirectly wholly-owned subsidiary of the Company, entered into the following office sub-licensing agreements for a term commencing from 18 September 2016 and expiring on 17 July 2019:

   *(i)* *Wang On Office Sub-licensing Agreement:*

   an office sub-licensing agreement with Wang On Management Service Limited ("**WOMS**"), an indirectly wholly-owned subsidiary of Wang On, to sub-lease Suite 3202, 32/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong at a monthly fee of HK$188,940, together with other monthly expenses (including management fee and air-conditioning charge, rates and Government rent, subject to increment of 5% each year); and

   *(ii)* *WOP Office Sub-licensing Agreement:*

   an office sub-licensing agreement with Wang On Properties Services Limited ("**WOPS**"), an indirectly wholly-owned subsidiary of WOP, to sub-lease Suite 3201, 32/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong at a monthly fee of HK$414,672, together with other monthly expenses (including management fee and air-conditioning charge, rates and Government rent, subject to increment of 5% each year).

   During the financial year, the total office sub-licensing fee received by the Group from WOMS and WOPS amounted to HK$9,652,254; and

(c) on 23 October 2015, WYT Medicine, a subsidiary of the Company, as the supplier, and Wang On Management Limited ("**WOM**"), as the purchaser, entered into a new master sales agreement for supplying Chinese and Western pharmaceutical products, health food and personal care products by the Group to WOM (for itself and on behalf of other members of Wang On) for the three financial years ending 31 March 2018 at annual caps of HK$8.0 million, HK$9.0 million and HK$9.8 million, respectively. During the financial year, total sales proceeds received by the Group from WOM was HK$9,378,687.

The Directors (including all of the INEDs) have reviewed and confirmed that the abovementioned continuing connected transactions were entered into (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; (iii) either on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties; and (iv) have not exceeded the respective caps.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

# REPORT OF THE DIRECTORS

Further details of other related party transactions undertaken by the Group in the ordinary course of business during the year under review, which fell under Rule 14A.73 of the Listing Rules, are set out in note 35 to the financial statements.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules and save as disclosed above, there were no other transactions which need to be disclosed as continuing connected transactions in accordance with the requirements of the Listing Rules.

## EMOLUMENT POLICY

The Group's emolument policy for its employees is set up and approved by the Remuneration Committee and the Board on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee and the Board, as authorised by the shareholders at the annual general meeting, having regarded to the Group's operating results, individual performance and comparable market statistics.

The shareholders of the Company has adopted the 2013 Share Option Scheme at the annual general meeting held on 22 August 2013, as an incentives to Directors and eligible employees, details of the 2013 Scheme are set out in note 28 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2018, sales to the Group's five largest customers accounted for less than approximately 11.1% (2017: approximately 13.1%) of the Group's total sales and the sales to the Group's largest customer included therein accounted to approximately 4.0% (2017: approximately 4.0%).

During the year, the largest supplier accounted for approximately 15.5% (2017: approximately 17.0%) of the Group's total purchases and the five largest suppliers of the Group accounted for approximately 32.2% (2017: approximately 36.4%) of the Group's purchases.

At no time during the year did a Director or any of their close associates or a shareholder of the Company, which to the best knowledge of the Directors, owns more than 5% of the Company's total number of issued shares, had any beneficial interest in any of the Group's five largest customers or the largest suppliers.

## DISCLOSURES PURSUANT TO RULES 13.12 AND 13.20 OF THE LISTING RULES

At the end of the reporting period and up to the date of this report, the Group through Winning Rich Investments Limited ("**Winning Rich**"), an indirect wholly-owned subsidiary of the Company, advanced an aggregate outstanding principal amount of HK$920.0 million to China Agri-Products Exchange Limited ("**CAP**") by way of (i) subscription of up to an aggregate principal amount of HK$720.0 million five year 10.0% coupon bonds due 2019 issued by CAP (the "**2019 CAP Bonds**") pursuant to the subscription agreement dated 4 October 2014 (as supplemented on 28 November 2014) entered into, among others, CAP, Winning Rich and Double Leads Investments Limited ("**Double Leads**"), an indirectly wholly-owned subsidiary of Wang On; and (ii) acquisition of HK$200 million 2019 CAP Bonds from Double Leads, pursuant to the agreement dated 5 July 2016 (as supplemented on 8 July 2016) entered into between Winning Rich, Double Leads and Wang On.

# REPORT OF THE DIRECTORS

## DONATIONS

During the year, the Group made charitable and other donations totaling approximately HK$2.7 million (2017: approximately HK$1.8 million).

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices in the interests of the Company and its shareholders as a whole.

In the opinion of the Directors, the Company has complied with the code provisions under the CG Code contained in Appendix 14 to the Listing Rules throughout the financial year under review. Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report set out on pages 40 to 53 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient amount of public float as required under the Listing Rules throughout the financial year under review and up to the date of this report.

## AUDIT COMMITTEE

The Company has established its Audit Committee with specific written terms of reference in compliance with Rule 3.21 of the Listing Rules. The Audit Committee comprises Mr. Li Ka Fai, David, Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou, all of them are the INEDs, Mr. Li Ka Fai, David was elected as the chairman of the Audit Committee.

During the year, the Audit Committee met twice with the management and the external auditors to review and consider, among other things, the accounting principles and practices adopted by the Group, the financial reporting matters (including the review of audited consolidated financial statements for the year ended 31 March 2017 and the consolidated interim results for the six-month ended 30 September 2017), the statutory compliance, internal controls and risk management, continuing connected transactions and the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function as well as their training programmes and budget.

The Audit Committee has also reviewed the consolidated financial statements for the year ended 31 March 2018 with the independent auditors and the management of the Company.

# REPORT OF THE DIRECTORS

## EVENT AFTER THE REPORTING PERIOD

Details of significant event after the reporting period of the Group are set out in note 38 to the financial statements.

## AUDITORS

The financial statements for the year ended 31 March 2018 have been audited by Ernst & Young, who will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as the auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Tang Ching Ho**

*Chairman and Managing Director*

Hong Kong, 20 June 2018

# INDEPENDENT AUDITOR'S REPORT

EY 安永

**To the shareholders of Wai Yuen Tong Medicine Holdings Limited**

(Incorporated in Bermuda with limited liability)

## OPINION

We have audited the consolidated financial statements of Wai Yuen Tong Medicine Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 144, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss and other 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 2018, 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.

## 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 of the current period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of goodwill and property, plant and equipment* | |
| As at 31 March 2018, the Group had goodwill and property, plant and equipment of HK$7,700,000 and HK$804,068,000, respectively, relating to the cash-generating units ("CGUs") of Chinese pharmaceutical and health food products, and the Western pharmaceutical and health food products. Given that the operating results of both CGUs were loss making for the current and prior years, management of the Company performed an impairment assessment on the goodwill of the respective CGUs by using value in use calculation based on the discounted cash flow method. Management also performed an impairment assessment of the related property, plant and equipment to determine their recoverable amounts based on either the value in use or the fair value less costs of disposal of the relevant property, plant and equipment.<br><br>This area has been identified as a key audit matter due to the materiality of the carrying values of the goodwill and the property, plant and equipment, and the significant judgements and estimations involved in the assessment of their recoverable amounts.<br><br>The accounting policies and disclosures in relation to the impairment of goodwill and items of property, plant and equipment are included in notes 2.4, 3, 13 and 15 to the consolidated financial statements. | For impairment assessments using the value in use calculations, our audit procedures included the following:<br><br>• enquired of management in relation to the key assumptions applied in the cash flow projections, such as the revenue growth rates and gross margins, and compared them to historical information and our understanding of latest market information and conditions;<br><br>• involved our internal valuation specialists to assist us with our assessment of the methodologies and the discount rates used to determine the recoverable amounts; and<br><br>• assessed the adequacy of the disclosures of the Group's impairment assessment of goodwill and property, plant and equipment in the consolidated financial statements.<br><br>For impairment assessments using the fair value less costs of disposal of the relevant property, plant and equipment, our audit procedures included the following:<br><br>• obtained and reviewed the valuation reports prepared by the external valuer engaged by the Company;<br><br>• assessed the external valuer's qualifications, experience and expertise and considered its objectivity and independence;<br><br>• involved our internal valuation specialists to assist us to assess the valuation methodologies applied and the key assumptions and estimates adopted in the valuations; and<br><br>• assessed the adequacy of the disclosures of the impairment assessment of property, plant and equipment in the consolidated financial statements. |

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Valuation of investment properties*<br><br>The Group holds various investment properties in Hong Kong for rental earning purpose. Such investment properties were measured at fair value at the end of each reporting period and the aggregate carrying amount of these investment properties was HK$503,000,000 as at 31 March 2018, which represented approximately 19.6% of the net assets of the Group.<br><br>Significant estimation is required to determine the fair values of the investment properties, which reflect market conditions at the end of the reporting period. Management of the Company engaged an external valuer to perform the valuation of these investment properties as at 31 March 2018 and in the absence of current prices in an active market for similar properties, the external valuer considered information from a variety of sources such as current prices of properties of similar locations and conditions.<br><br>The accounting policies and disclosures in relation to the valuation of investment properties are included in notes 2.4, 3 and 14 to the consolidated financial statements. | Our audit procedures to assess the valuation of investment properties included the following:<br><br>• obtained and reviewed the valuation reports prepared by the external valuer engaged by the Company;<br><br>• assessed the external valuer's qualifications, experience and expertise and considered its objectivity and independence;<br><br>• involved our internal valuation specialists to assist us to assess the valuation methodologies applied and the key assumptions and estimates adopted in the valuations; and<br><br>• assessed the adequacy of the disclosures of the valuation of the investment properties in the consolidated financial statements. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of investments in associates*<br><br>As at 31 March 2018, the Group held a 23.8% interest in a listed associate, Easy One Financial Group Limited ("Easy One"), with a carrying amount of HK$291,608,000. As Easy One was loss making during the year and the market value of Easy One's shares held by the Group was significantly lower than the carrying amount of the Group's investment in Easy One as at 31 March 2018, there were impairment indications on the Group's investment in Easy One.<br><br>Accordingly, management of the Company has performed an impairment assessment on its investment in Easy One using a value in use calculation to determine its recoverable amount. The value in use calculation was based on the discounted cash flow method which was complex and required management to use significant judgements and make assumptions which were affected by future market or economic conditions.<br><br>The accounting policies and disclosures in relation to the investment in the associate are included in notes 2.4, 3 and 16 to the consolidated financial statements. | Our audit procedures to assess the impairment assessment of the investment in Easy One included the following:<br><br>• enquired of management in relation to the key assumptions applied in the cash flow projection, such as the revenue growth rate and gross margin, and compared them to historical information and our understanding of latest market information and conditions; and<br><br>• involved our internal valuation specialists to assist us with our assessment of the methodology and the discount rate used to determine the recoverable amount. |

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Valuation of financial instruments*<br><br>As at 31 March 2018, the Group had available-for-sale investments and equity investments at fair value through profit or loss which were measured at fair value. As at 31 March 2018, the fair value measurements of an unlisted debt investment amounting to HK$909,562,000 and a listed equity instrument, the share trading of which was suspended, amounting to HK$23,520,000 were categorised within level 3 of the fair value hierarchy.<br><br>Significant management judgements and estimates are required in determining the valuation of financial instruments which are categorised within level 3 of the fair value hierarchy. Management of the Company engaged an external valuer to perform the valuation of these financial instruments at the end of the reporting period and in the absence of current prices in an active market for similar investments, the external valuer applied certain unobservable inputs in the valuation.<br><br>The accounting policies and disclosures in relation to the valuation of financial instruments are included in notes 2.4, 3, 18, 22 and 36 to the consolidated financial statements. | Our audit procedures to assess the valuation of financial instruments categorised within level 3 of the fair value hierarchy included the following:<br><br>• obtained and reviewed the valuation reports prepared by the external valuer engaged by the Company;<br><br>• assessed the external valuer's qualifications, experience and expertise and considered its objectivity and independence;<br><br>• involved our internal valuation specialists to assist us to assess the valuation methodologies applied and the key assumptions and estimates adopted in the valuation; and<br><br>• assessed the adequacy of the disclosures of the valuation of financial instruments in the consolidated financial statements. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, 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 this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

## AUDITOR'S RESPONSIBILITIES 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

The engagement partner on the audit resulting in this independent auditor's report is Mr. WONG, Cheuk Keung.

**Ernst & Young**
*Certified Public Accountants*
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

20 June 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **845,781** | 738,440 |
| Cost of sales | | **(501,987)** | (427,676) |
| Gross profit | | **343,794** | 310,764 |
| Other income and gains, net | 5 | **124,002** | 170,132 |
| Selling and distribution expenses | | **(267,344)** | (263,861) |
| Administrative expenses | | **(188,166)** | (172,403) |
| Other expenses | | **(19,170)** | — |
| Finance costs | 7 | **(18,926)** | (16,555) |
| Change in fair value of equity investments at fair value through profit or loss, net | | **(17,800)** | (47,545) |
| Fair value gains/(losses) on investment properties, net | 14 | **23,356** | (31,800) |
| Share of profits and losses of associates | | **(94,633)** | (45,091) |
| LOSS BEFORE TAX | 6 | **(114,887)** | (96,359) |
| Income tax credit/(expense) | 10 | **(2,281)** | 2,432 |
| LOSS FOR THE YEAR | | **(117,168)** | (93,927) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | | |
| Change in fair value of available-for-sale investments | 18 | **(6,263)** | 37,204 |
| Share of other comprehensive income/(loss) of an associate | | **27,633** | (7,805) |
| Release of reserves upon deemed partial disposal of equity interests in an associate | | **(973)** | — |
| Translation reserve: | | | |
| Translation of foreign operations | | **7,350** | (4,430) |
| Release upon voluntary wind-up of subsidiaries | 30 | **—** | (3,030) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | | **27,747** | 21,939 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | **(89,421)** | (71,988) |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2018

| | Note | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| Loss attributable to: | | | |
| Owners of the parent | | **(115,581)** | (93,303) |
| Non-controlling interests | | **(1,587)** | (624) |
| | | **(117,168)** | (93,927) |
| Total comprehensive loss attributable to: | | | |
| Owners of the parent | | **(87,834)** | (71,364) |
| Non-controlling interests | | **(1,587)** | (624) |
| | | **(89,421)** | (71,988) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| Basic and diluted | | **HK(9.14) cents** | HK(10.57) cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **809,376** | 823,487 |
| Investment properties | 14 | **503,000** | 479,000 |
| Goodwill | 15 | **7,700** | 15,335 |
| Investments in associates | 16 | **298,148** | 375,574 |
| Available-for-sale investments | 18 | **911,591** | 912,093 |
| Loan and interests receivables | 17 | **—** | 80,000 |
| Deposits | 20 | **49,475** | 10,836 |
| Deferred tax assets | 26 | **13,196** | 13,761 |
| | | **2,592,486** | 2,710,086 |
| CURRENT ASSETS | | | |
| Inventories | 19 | **183,175** | 169,712 |
| Trade and other receivables | 20 | **189,560** | 172,908 |
| Amounts due from associates | 21 | **7,480** | 10,417 |
| Equity investments at fair value through profit or loss | 22 | **127,593** | 150,303 |
| Loan and interests receivables | 17 | **134,087** | 32,823 |
| Tax recoverable | | **1,231** | 3,307 |
| Bank balances and cash | 23 | **420,849** | 323,695 |
| | | **1,063,975** | 863,165 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 24 | **158,549** | 149,494 |
| Interest-bearing bank borrowings | 25 | **264,790** | 62,290 |
| Tax payable | | **2,040** | 857 |
| | | **425,379** | 212,641 |
| NET CURRENT ASSETS | | **638,596** | 650,524 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **3,231,082** | 3,360,610 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **3,231,082** | 3,360,610 |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | 24 | **2,450** | — |
| Interest-bearing bank borrowings | 25 | **662,227** | 697,017 |
| Deferred tax liabilities | 26 | **6,380** | 5,870 |
| | | **671,057** | 702,887 |
| NET ASSETS | | **2,560,025** | 2,657,723 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 27 | **12,651** | 12,651 |
| Reserves | 29 | **2,541,853** | 2,639,140 |
| | | **2,554,504** | 2,651,791 |
| Non-controlling interests | | **5,521** | 5,932 |
| TOTAL EQUITY | | **2,560,025** | 2,657,723 |

**Tang Ching Ho**
*Director*

**Chan Chun Hong, Thomas**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

| | | Attributable to owners of the parent | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 (note 29 (i)) | Contributed surplus HK$'000 (note 29 (ii)) | Share option reserve HK$'000 | Translation reserve HK$'000 | Reserve funds HK$'000 (note 29 (iv)) | Other reserve HK$'000 (note 29 (iii)) | Available-for-sale investment revaluation reserve HK$'000 | Asset revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2016 | | 3,163 | 1,725,243 | (27,150) | 275,693 | 493 | 5,036 | 359 | ( 853) | (38,282) | 28,014 | 350,774 | 2,322,490 | 7,066 | 2,329,556 |
| Loss for the year | | – | – | – | – | – | – | – | – | – | – | (93,303) | ( 93,303) | ( 624) | ( 93,927) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | | |
| Change in fair value of an available-for-sale investment | | – | – | – | – | – | – | – | – | 37,204 | – | – | 37,204 | – | 37,204 |
| Share of other comprehensive income/(loss) of an associate | | – | – | – | – | – | (24,842) | – | 12,316 | 4,721 | – | – | ( 7,805) | – | ( 7,805) |
| Translation reserve: | | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | (4,430) | – | – | – | – | – | ( 4,430) | – | ( 4,430) |
| Release upon voluntary wind-up of subsidiaries | 30 | – | – | – | – | – | (3,030) | – | – | – | – | – | ( 3,030) | – | ( 3,030) |
| Total comprehensive income/(loss) for the year | | – | – | – | – | – | (32,302) | – | 12,316 | 41,925 | – | (93,303) | ( 71,364) | ( 624) | ( 71,988) |
| Forfeiture of share options | | – | – | – | – | (110) | – | – | – | – | – | 110 | – | – | – |
| Rights issue | 27(a) | 9,488 | 398,521 | – | – | – | – | – | – | – | – | – | 408,009 | – | 408,009 |
| Share issue expenses | 27(a) | – | ( 7,344) | – | – | – | – | – | – | – | – | – | ( 7,344) | – | ( 7,344) |
| Voluntary wind-up of subsidiaries | 30 | – | – | – | – | – | – | – | – | – | – | – | – | ( 510) | ( 510) |
| At 31 March 2017 | | 12,651 | 2,116,420* | (27,150)* | 275,693* | 383* | (27,266)* | 359* | 11,463* | 3,643* | 28,014* | 257,581* | 2,651,791 | 5,932 | 2,657,723 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

| | Attributable to owners of the parent | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 (note 29 (i)) | Contributed surplus HK$'000 (note 29 (ii)) | Share option reserve HK$'000 | Translation reserve HK$'000 | Reserve funds HK$'000 (note 29 (iv)) | Other reserve HK$'000 (note 29 (iii)) | Available-for-sale investment revaluation reserve HK$'000 | Asset revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2017 | 12,651 | 2,116,420 | (27,150) | 275,693 | 383 | (27,266) | 359 | 11,463 | 3,643 | 28,014 | 257,581 | 2,651,791 | 5,932 | 2,657,723 |
| Loss for the year | – | – | – | – | – | – | – | – | – | – | (115,581) | (115,581) | (1,587) | (117,168) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | |
| Change in fair value of available-for-sale investments | – | – | – | – | – | – | – | – | (6,263) | – | – | (6,263) | – | (6,263) |
| Share of other comprehensive income of an associate | – | – | – | – | – | 21,907 | – | – | 5,726 | – | – | 27,633 | – | 27,633 |
| Release of reserves upon deemed partial disposal of equity interests in an associate | – | – | – | – | – | 1,209 | – | (509) | (1,673) | – | – | (973) | – | (973) |
| Translation reserve: | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | 7,350 | – | – | – | – | – | 7,350 | – | 7,350 |
| Total comprehensive income/(loss) for the year | – | – | – | – | – | 30,466 | – | (509) | (2,210) | – | (115,581) | (87,834) | (1,587) | (89,421) |
| Forfeiture of share options | – | – | – | – | (51) | – | – | – | – | – | 51 | – | – | – |
| Share of other reserves of an associate | – | – | – | – | – | – | – | (9,453) | – | – | – | (9,453) | – | (9,453) |
| Capital contribution from a non-controlling shareholder of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | 1,176 | 1,176 |
| At 31 March 2018 | 12,651 | 2,116,420* | (27,150)* | 275,693* | 332* | 3,200* | 359* | 1,501* | 1,433* | 28,014* | 142,051* | 2,554,504 | 5,521 | 2,560,025 |

* These reserve accounts comprise the consolidated reserves of HK$2,541,853,000 (2017: HK$2,639,140,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | **(114,887)** | (96,359) |
| Adjustments for: | | | |
| Finance costs | 7 | **18,926** | 16,555 |
| Change in fair value of equity investments at fair value through profit or loss, net | | **17,800** | 47,545 |
| Fair value (gains)/losses on investment properties, net | 14 | **(23,356)** | 31,800 |
| Accrued rent-free rental income | 14 | **(644)** | — |
| Gain on voluntary wind-up of subsidiaries | 30 | **—** | (3,540) |
| Share of profits and losses of associates | | **94,633** | 45,091 |
| Gain on disposal of items of property, plant and equipment, net | 5 | **—** | (64,531) |
| Dividends from equity investments at fair value through profit or loss | 5 | **(3,353)** | (3,299) |
| Interest income on a loan receivable from an associate | 5 | **(6,464)** | (1,585) |
| Interest income on available-for-sale investments | 5 | **(95,411)** | (81,979) |
| Imputed interest income on an available-for-sale investment | 5 | **(3,732)** | (3,368) |
| Interest income on bank deposits | 5 | **(1,028)** | (636) |
| Allowance for obsolete inventories | 6 | **4,840** | 4,958 |
| Depreciation | 13 | **46,813** | 14,454 |
| Impairment of trade receivables, net | 20 | **2,327** | 5,017 |
| Impairment of goodwill | 15 | **7,635** | — |
| Impairment of items of property, plant and equipment | 13 | **11,535** | — |
| | | **(44,366)** | (89,877) |
| Increase in inventories | | **(18,303)** | (19,910) |
| (Increase)/decrease in trade and other receivables | | **(31,585)** | 32,205 |
| Decrease in amounts due from associates | | **2,937** | 1,891 |
| Increase/(decrease) in trade and other payables | | **11,505** | (12,700) |
| Cash used in operations | | **(79,812)** | (88,391) |
| Interest received | | **1,028** | 636 |
| Hong Kong profits tax refunded/(paid) | | **2,053** | (2,112) |
| Net cash flows used in operating activities | | **(76,731)** | (89,867) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2018

| | Notes | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(28,576)** | (66,807) |
| Purchase of an available-for-sale investment | | **(2,029)** | (206,849) |
| Purchases of equity investments at fair value through profit or loss | | **—** | (3,989) |
| Increase in a loan receivable | | **(20,000)** | (80,000) |
| Interest received | | **100,611** | 82,234 |
| Dividends received from listed securities | | **3,353** | 3,299 |
| Net proceeds from disposal of items of property, plant and equipment | | **—** | 88,127 |
| Proceeds from disposal of equity investments at fair value through profit or loss | | **4,910** | 3,216 |
| Deposits paid for acquisition of items of property, plant and equipment | | **(35,000)** | (11,602) |
| Net cash flows from/(used in) investing activities | | **23,269** | (192,371) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of rights shares | 27(a) | **—** | 408,009 |
| Share issue expenses | 27(a) | **—** | (7,344) |
| Capital contribution from a non-controlling shareholder of a subsidiary | | **1,176** | — |
| New bank borrowings | | **480,000** | 1,030,000 |
| Repayments of bank borrowings | | **(312,290)** | (1,009,379) |
| Interest paid | | **(18,926)** | (16,555) |
| Net cash flows from financing activities | | **149,960** | 404,731 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **96,498** | 122,493 |
| Cash and cash equivalents at beginning of year | | **323,695** | 205,608 |
| Effect of foreign exchange rate changes, net | | **656** | (4,406) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **420,849** | 323,695 |
| ANALYSIS OF BALANCES OF CASH ND CASH EQUIVALENTS | | | |
| Bank balances and cash | 23 | **420,849** | 323,695 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 1. CORPORATE AND GROUP INFORMATION

Wai Yuen Tong Medicine Holdings Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its head office and principal place of business are both located at is Suite 3101, 31/F., Skyline Tower, 39 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- production and sale of Chinese pharmaceutical and health food products
- production and sale of Western pharmaceutical and health food products
- property investment

In the opinion of the directors of the Company, the immediate holding company of the Company is Rich Time Strategy Limited, which is incorporated in the British Virgin Islands, and the ultimate holding company of the Company is Wang On Group Limited ("Wang On"), which is incorporated in Bermuda and is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct 2018 | Direct 2017 | Indirect 2018 | Indirect 2017 | Principal activities |
|---|---|---|---|---|---|---|---|
| Asia Brighter Investment Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Able Trend Limited | British Virgin Islands/ Hong Kong | Ordinary USD1 | — | — | 100% | 100% | Treasury management |
| Billion Good Investment Limited | Hong Kong | Ordinary HK$2 | — | — | 99.79% | 99.79% | Property holding |
| Cloud Hero Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Provision of financial service |
| Full Gainer Investment Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Grand Quality Development Limited | Hong Kong | Ordinary HK$2 | — | — | 100% | 100% | Property investment |
| Good Excellent Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Info World Investment Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Luxembourg Medicine Company Limited | Hong Kong | Ordinary HK$933,313 | — | — | 99.79% | 99.79% | Production and sale of Western pharmaceutical and health food products |
| Richest Ever Limited | Hong Kong | Ordinary HK$2 | — | — | 99.79% | 99.79% | Trading of Chinese pharmaceutical and health food products |
| Sky Success Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Sino Fame Investments Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Star Sense Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Sunbo Investment Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Topmate Investment Limited | Hong Kong | Ordinary HK$1 | — | — | 100% | 100% | Property investment |
| Total Smart Investments Limited | British Virgin Islands | Ordinary USD1 | 100% | 100% | — | — | Investment holding |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 1. CORPORATE AND GROUP INFORMATION (CONTINUED)

### Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

| Name | Place of incorporation and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company: Direct 2018 | Direct 2017 | Indirect 2018 | Indirect 2017 | Principal activities |
|---|---|---|---|---|---|---|---|
| Union Target Limited | Hong Kong | Ordinary HK$1 | — | — | **100%** | 100% | Property investment |
| Wai Yuen Tong Company Limited | Hong Kong | Ordinary HK$1 | — | — | **100%** | 100% | Property holding |
| Wai Yuen Tong (Macao) Limited | Macau | Ordinary Macau Pataca 25,000 | — | — | **99.79%** | 99.79% | Retail sale of Chinese pharmaceutical and health food products |
| Wai Yuen Tong (Retail) Limited | Hong Kong | Ordinary HK$2 | — | — | **99.79%** | 99.79% | Retail sale of Chinese pharmaceutical and health food products |
| Wai Yuen Tong Medicine Company Limited ("WYT Medicine Company") | Hong Kong | Ordinary HK$13,417,374 Non-voting deferred shares* HK$17,373,750 | — | — | **99.79%** | 99.79% | Production and sale of Chinese pharmaceutical and health food products |
| 深圳市延養堂醫藥有限公司# | People's Republic of China (the "PRC")/ Mainland China | Registered capital Renminbi ("RMB") 102,000,000 | — | — | **99.79%** | 99.79% | Retail sale and wholesale of Chinese pharmaceutical and health food products |
| 冠尊（深圳）商貿發展有限公司# | the PRC/ Mainland China | Registered capital HKD100,000,000 | — | — | **100%** | 100% | Property holding |

* The non-voting deferred shares carry no voting rights nor rights to dividends. On the wind-up of WYT Medicine Company, holders of the non-voting deferred shares have a right to repayment in proportion to the amounts paid up on all ordinary and deferred shares after the first HK$1,000,000,000,000 thereof has been distributed among the holders of the ordinary shares.

\# A wholly-foreign-owned enterprise under PRC law.

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

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments and equity investments at fair value through profit or loss which have been measured at fair value.

These consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.1 BASIS OF PREPARATION (CONTINUED)

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to HKFRS12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12* |

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 31 to the financial statements.

(b) Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as there was no subsidiary classified as a disposal group held for sale as at 31 March 2018.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1] |
| HKFRS 9 | *Financial Instruments*[1] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| HKFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1] |
| HKFRS 16 | *Leases*[2] |
| HKFRS 17 | *Insurance Contracts*[4] |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement*[2] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[2] |
| Amendments to HKAS 40 | *Transfers of Investment Property*[1] |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[2] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to HKFRS 1 and HKAS 28[1] |
| *Annual Improvements 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption
4 Effective for annual periods beginning on or after 1 January 2021

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

(a) The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 April 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

(b) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 April 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 April 2018. During the year, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

**Classification and measurement**

HKFRS 9 contains three principal classification categories for financial assets: measured at (i) amortised cost, (ii) fair value through profit or loss ("FVTPL") and (iii) fair value through other comprehensive income ("FVTOCI"). The Group does not expect a significant impact on its equity on applying the classification and measurement requirement of HKFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Debt securities currently held as available for sale will continue to be measured at FVTOCI under HKFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

For equity investments, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity investment is not held for trading and the entity irrevocably elects to designate that investment as at FVTOCI. If an equity investment is designated as at FVTOCI then only dividend income on that investment will be recognised in profit or loss. Gains, losses, and impairments on that investment will be recognised in other comprehensive income without recycling. The directors of the Company have assessed that certain equity investments with an aggregate carrying amount of HK$81,691,000 as at 31 March 2018 are not held for trading and the Group irrevocably elected to designate these equity investments as at FVTOCI upon the adoption of HKFRS 9 on 1 April 2018. During the year, unrealised fair value losses of HK$33,151,000 on these equity investments were recognised in profit or loss.

The Group has assessed that its financial assets currently measured at amortised cost will continue with its classification and measurement upon the adoption of HKFRS 9.

**Impairment**

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables and loans and interest receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of the impairment loss to be recognised by the Group as at 1 April 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and loans and interest receivables. Such further impairment recognised under the expected credit loss model would reduce the opening retained profits as at 1 April 2018.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

(c) Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now. The amendments are not expected to have any significant impact on the Group's financial statements.

(d) HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 April 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 April 2018. The Group expects that the transitional adjustment to be made on 1 April 2018 upon initial adoption of HKFRS 15 will not be material.

The directors of the Company have assessed the impacts of the application of HKFRS 15 and the expected impacts, primarily on the sale of the Chinese and Western pharmaceutical and health food products, are summarised as follows:

(i) Variable consideration

The Group provides trade discounts and/or volume rebates for some of its key customers. Currently, the Group recognises revenue from the sale of goods measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty is resolved. Under HKFRS 15, a transaction price is considered variable if a customer is provided with a right of return, trade discounts or volume rebates. The Group is required to estimate the amount of consideration to which it will be entitled in the sales of its pharmaceutical and health food products and the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group has decided to use the expected value method to estimate the amount of returns, trade discounts and volume rebates as this method better predicts the amount of variable consideration to which the Group will be entitled.

(ii) Rights of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales. The Group has assessed that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventories for the expected returns, instead of recognising a separate asset.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

(d) (Continued)

(iii) Loyalty points programme

Under HK(IFRIC)-Int 13 *Customer Loyalty Programmes* ("HK(IFRIC)-Int 13"), the loyalty programme offered by the Group results in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under HKFRS 15 the loyalty programme gives rise to a separate performance obligation because it generally provides a material right to the customer. Under HKFRS 15, the Group will need to allocate a portion of the transaction price to the loyalty programme based on the relative stand-alone selling price instead of the allocation using the fair value of points issued, i.e. residual approach, as it did under HK(IFRIC)-Int 13.

The directors of the Company do not anticipate that the above expected changes upon the adoption of HKFRS 15 will have a material impact on the timing and measurement of revenue recognised in the future reporting periods. The directors of the Company anticipates that the application of HKFRS 15 in the future may result in more disclosures.

(e) HKFRS 16, issued in May 2016, 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17.

Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 April 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 33(b) to the financial statements, at 31 March 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of HK$126,057,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

(f) Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 April 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

(g) HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 April 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

(h) HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 April 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and other comprehensive income of the Group. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

### Fair value measurement

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

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair value measurement (Continued)

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

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

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

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

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

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

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties, deferred tax 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 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 profit or loss in the period in which it arises.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

| | |
|---|---|
| Leasehold land and buildings | 2% or over the terms of the relevant leases |
| Leasehold improvements | 20 - $33^{1/3}$ % or over the terms of the relevant leases |
| Plant and machinery | 10 - 20% |
| Furniture and equipment | 20 - $33^{1/3}$ % |
| Motor vehicles | 20% |
| Computer system | 20 - $33^{1/3}$ % |

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.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment and depreciation (Continued)

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

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

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

#### Trademarks

Purchased trademarks with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives ranging from five to ten years.

#### Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, available-for-sale investments and loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include bank balances and cash, trade and other receivables, amounts due from associates, equity investments at fair value through profit or loss, available-for-sale investments and loan and interests receivables.

#### Subsequent measurement

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

#### Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in profit or loss. The loss arising from impairment is recognised in profit or loss.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (Continued)

**Subsequent measurement (Continued)**

**Available-for-sale financial investments**

Available-for-sale financial investments are non-derivative debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

#### Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, accruals and interest-bearing bank borrowings.

**Subsequent measurement**

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

**Loans and borrowings**

After initial recognition, interest-bearing bank and other 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 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 profit or loss.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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 to be incurred to completion and disposal.

### Cash and cash equivalents

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

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 profit or loss.

### 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 and associates, 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 and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) franchise fee income, on a straight-line basis over the franchise period;

(c) management and promotion fees and commission income, when services are provided;

(d) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based payments (Continued)

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Other employee benefits

**Pension schemes**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to 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 to a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

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

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. Moreover, given that both the Chinese pharmaceutical and health food products and the Western pharmaceutical and health food products cash generating units (the "CGUs") were loss making during the year, the directors of the Company performed an impairment assessment on the goodwill of the respective CGUs. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15 to the financial statements.

#### Valuation of investment properties

Investment properties including commercial units in Hong Kong are revalued at the end of the reporting period on a market value, existing use basis by independent professionally qualified valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the end of the reporting period are used.

#### Impairment of non-financial non-current assets (other than goodwill)

The Group assesses whether there are any indicators of impairment of all non-financial non-current assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or the CGUs and choose a suitable discount rate in order to calculate the present value of those cash flows.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 3. SIGNIFICANT ACCOUNTING ESTIMATES (CONTINUED)

### Estimation uncertainty (Continued)

**Impairment of non-financial non-current assets (other than goodwill) (continued)**

(i) *Investment in an associate*

As at 31 March 2018, the Group held a 23.8% interest in a listed associate, Easy One Financial Group Limited ("Easy One"), with a carrying amount of approximately HK$291,608,000. As Easy One is loss making during the year and the market value of Easy One's shares held by the Group is significantly lower than the carrying amount of the Group's investment in Easy One, there were impairment indications on the Group's investment in Easy One.

Accordingly, the Group has performed an impairment assessment on its investment in Easy One using a value in use calculation to determine its recoverable amount. The value in use calculation was based on the discounted cash flow method which was complex and required management to use significant judgements and make assumptions which were affected by expected future market or economic conditions.

(ii) *Property, plant and equipment*

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. Given that both the Chinese pharmaceutical and health food products, and the Western pharmaceutical and health food products CGUs were loss making during the year, the directors of the Company performed an impairment assessment of the property, plant and equipment relating to these CGUs to determine their recoverable amounts. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

**Valuation of financial instruments**

When the fair values of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, their fair values are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of certain unobservable inputs as detailed in note 36 to the financial statements. Changes in assumptions about these factors could affect the reported fair values of financial instruments in the consolidated statement of financial position and the level of the instruments classified in the fair value hierarchy. Significant management judgements and estimates are required in determining the valuation of financial instruments which are categorised within level 3 in the fair value hierarchy.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 4. OPERATING SEGMENT INFORMATION

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

(a) production and sale of Chinese pharmaceutical and health food products - manufacturing, processing and sale of traditional Chinese medicine which includes Chinese medicinal products sold under the brand name of "Wai Yuen Tong" and a range of products manufactured using selected medicinal materials with traditional prescriptions, mainly in the PRC and Hong Kong;

(b) production and sale of Western pharmaceutical and health food products - processing and sale of Western pharmaceutical products and personal care products under the brand names of "Madame Pearl's" and "Pearl's", respectively; and

(c) property investment - investment in commercial premises for rental income.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's loss before tax except that other income and gains, finance costs, change in fair value of equity investments at fair value through profit or loss, net, head office and corporate income and expenses and share of profits and losses of associates are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

During the year, management has revised the format of segment reporting to align with that of Wang On and as a result, segment asset and liability information is no longer presented. Comparative figures have been revised to conform to the current year's presentation.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results

Year ended 31 March

| | Production and sale of Chinese pharmaceutical and health food products | | Production and sale of Western pharmaceutical and health food products | | Property investment | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 |
| **Segment revenue:** | | | | | | | | | | |
| Sales to external customers | 700,217 | 578,294 | 135,888 | 149,859 | 9,676 | 10,287 | — | — | 845,781 | 738,440 |
| Intersegment sales | 112 | — | — | — | 6,729 | 6,936 | (6,841) | (6,936) | — | — |
| Total | 700,329 | 578,294 | 135,888 | 149,859 | 16,405 | 17,223 | (6,841) | (6,936) | 845,781 | 738,440 |
| **Segment results** | (54,526) | (35,357) | (52,853) | (12,373) | 26,088 | (29,553) | — | — | (81,291) | (77,283) |
| Other income and gains, net | | | | | | | | | 124,002 | 170,132 |
| Unallocated expenses | | | | | | | | | (26,239) | (80,017) |
| Finance costs | | | | | | | | | (18,926) | (16,555) |
| Change in fair value of equity investments at fair value through profit or loss, net | | | | | | | | | (17,800) | (47,545) |
| Share of profits and losses of associates | | | | | | | | | (94,633) | (45,091) |
| Loss before tax | | | | | | | | | (114,887) | (96,359) |
| Income tax credit/(expense) | | | | | | | | | (2,281) | 2,432 |
| Loss for the year | | | | | | | | | (117,168) | (93,927) |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### Other segment information

Year ended 31 March

| | Production and sale of Chinese pharmaceutical and health food products | | Production and sale of Western pharmaceutical and health food products | | Property investment | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 |
| **Other segment information:** | | | | | | | | | | |
| Capital expenditure (note (i)) | 27,749 | 115,936 | 9,792 | 79,189 | — | — | 10 | 6,997 | 37,551 | 202,122 |
| Depreciation | 34,457 | 8,117 | 5,425 | 274 | 5,092 | 5,092 | 1,839 | 971 | 46,813 | 14,454 |
| Fair value losses of equity investments at fair value through profit or loss, net | — | — | — | — | — | — | 17,800 | 47,545 | 17,800 | 47,545 |
| Fair value gains/(losses) on investment properties, net | — | — | — | — | 23,356 | (31,800) | — | — | 23,356 | (31,800) |
| Impairment of trade receivables, net | 1,300 | 3,317 | 1,027 | 1,700 | — | — | — | — | 2,327 | 5,017 |
| Impairment of goodwill | — | — | 7,635 | — | — | — | — | — | 7,635 | — |
| Impairment of items of property, plant and equipment | 3,735 | — | — | — | 7,800 | — | — | — | 11,535 | — |
| Allowance for obsolete inventories | 1,298 | 3,489 | 3,542 | 1,469 | — | — | — | — | 4,840 | 4,958 |
| Investments in associates | — | — | — | — | — | — | 298,148 | 375,574 | 298,148 | 375,574 |
| Share of losses of associates, net | — | — | — | — | — | — | 94,633 | 45,091 | 94,633 | 45,091 |

Note:

(i) Capital expenditure includes additions to investment properties and property, plant and equipment.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### Geographical information

**(a) Revenue from external customers**

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Hong Kong | **606,449** | 570,798 |
| Mainland China | **208,153** | 130,837 |
| Macau | **13,431** | 13,853 |
| Others | **17,748** | 22,952 |
| | **845,781** | 738,440 |

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

**(b) Non-current assets**

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Hong Kong | **1,540,689** | 1,595,309 |
| Mainland China | **113,083** | 107,945 |
| Macau | **231** | 978 |
| | **1,654,003** | 1,704,232 |

The non-current assets information above are based on the locations of the assets and excluded financial instruments and deferred tax assets.

### Information about major customers

During the years ended 31 March 2018 and 2017, no revenue from transactions with a single external customer amounted to 10% or more of the total revenue of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 5. REVENUE AND OTHER INCOME AND GAINS, NET

Revenue represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts; gross rental income received and receivable from investment properties; and management and promotion fees received and receivable during the year.

An analysis of the Group's revenue, other income and gains, net, is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Revenue** | | |
| Sales of goods | **835,166** | 727,064 |
| Rental income from investment properties | **9,676** | 10,287 |
| Management and promotion fees | **939** | 1,089 |
| | **845,781** | 738,440 |
| **Other income** | | |
| Interest income on a loan receivable from an associate | **6,464** | 1,585 |
| Interest income on available-for-sale investments | **95,411** | 81,979 |
| Imputed interest income on an available-for-sale investment | **3,732** | 3,368 |
| Interest income on bank deposits | **1,028** | 636 |
| Dividends from equity investments at fair value through profit or loss | **3,353** | 3,299 |
| Sub-lease rental income | **12,964** | 7,852 |
| Others | **1,050** | 1,567 |
| | **124,002** | 100,286 |
| **Gains, net** | | |
| Gain on disposal of items of property, plant and equipment, net | **—** | 64,531 |
| Gain on wind-up of subsidiaries (note 30) | **—** | 3,540 |
| Exchange gains, net | **—** | 1,775 |
| | **—** | 69,846 |
| | **124,002** | 170,132 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 6. LOSS BEFORE TAX

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

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Cost of inventories recognised as an expense (including allowance for obsolete inventories of HK$4,840,000 (2017: HK$4,958,000)) | | **501,987** | 427,676 |
| Depreciation | 13 | **46,813** | 14,454 |
| Research and development costs | | **15,705** | 8,389 |
| Lease payments under operating leases in respect of land and buildings: | | | |
| Minimum lease payments | | **101,544** | 119,387 |
| Contingent rents | | **13,296** | 13,124 |
| Auditor's remuneration | | **2,400** | 2,300 |
| Employee benefit expense (excluding directors' remuneration (note 8)): | | | |
| Wages and salaries and other benefits | | **171,722** | 157,795 |
| Pension scheme contributions | | **11,550** | 10,777 |
| | | **183,272** | 168,572 |
| Foreign exchange differences, net | | **2,610** | (1,775) |
| Impairment of trade receivables, net* | 20 | **2,327** | 5,017 |
| Gross rental income | 5 | **(9,676)** | (10,287) |
| Less: direct outgoing expenses | | **58** | 587 |
| | | **(9,618)** | (9,700) |
| Loss on deemed partial disposal of equity interests in an associate** | 16(b) | **52,170** | — |
| Impairment of goodwill*** | 15 | **7,635** | — |
| Impairment of items of property, plant and equipment*** | 13 | **11,535** | — |

* Impairment of trade receivables, net is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

** Loss on deemed partial disposal of equity interests in an associate is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

*** Impairment of goodwill and impairment of items of property, plant and equipment are included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Interest on bank borrowings | **18,926** | 16,555 |

## 8. DIRECTORS' REMUNERATION

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

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Fees | **660** | 660 |
| Other emoluments for executive directors: | | |
| Salaries, allowances and benefits in kind | **14,360** | 14,360 |
| Performance-related bonuses* | **573** | 599 |
| Pension scheme contributions | **72** | 72 |
| | **15,005** | 15,031 |
| | **15,665** | 15,691 |

* Certain executive directors of the Company are entitled to bonus payments which are determined with reference to the Group's operating results, individual performance of the directors and comparable market statistics during the year.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 8. DIRECTORS' REMUNERATION (CONTINUED)

The remuneration paid to executive directors and independent non-executive directors during the year was as follows:

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance-related bonuses HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Executive directors: | | | | | |
| Mr. Tang Ching Ho | **—** | **12,000** | **500** | **18** | **12,518** |
| Mr. Chan Chun Hong, Thomas | **—** | **661** | **28** | **18** | **707** |
| Ms. Tang Mui Fun | **—** | **1,699** | **45** | **36** | **1,780** |
| | **—** | **14,360** | **573** | **72** | **15,005** |
| Independent non-executive directors: | | | | | |
| Mr. Leung Wai Ho | **160** | **—** | **—** | **—** | **160** |
| Mr. Siu Man Ho, Simon | **160** | **—** | **—** | **—** | **160** |
| Mr. Cho Wing Mou | **160** | **—** | **—** | **—** | **160** |
| Mr. Li Ka Fai, David | **180** | **—** | **—** | **—** | **180** |
| | **660** | **—** | **—** | **—** | **660** |
| Total | **660** | **14,360** | **573** | **72** | **15,665** |
| 2017 | | | | | |
| Executive directors: | | | | | |
| Mr. Tang Ching Ho | — | 12,000 | 500 | 18 | 12,518 |
| Mr. Chan Chun Hong, Thomas | — | 661 | 28 | 18 | 707 |
| Ms. Tang Mui Fun | — | 1,699 | 71 | 36 | 1,806 |
| | — | 14,360 | 599 | 72 | 15,031 |
| Independent non-executive directors: | | | | | |
| Mr. Leung Wai Ho | 160 | — | — | — | 160 |
| Mr. Siu Man Ho, Simon | 160 | — | — | — | 160 |
| Mr. Cho Wing Mou | 160 | — | — | — | 160 |
| Mr. Li Ka Fai, David | 180 | — | — | — | 180 |
| | 660 | — | — | — | 660 |
| Total | 660 | 14,360 | 599 | 72 | 15,691 |

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration for the years ended 31 March 2018 and 2017.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: two) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration for the year of the remaining three (2017: three) non-director, highest paid employees are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **4,485** | 4,509 |
| Discretionary performance related bonuses | **532** | 613 |
| Pension scheme contributions | **53** | 53 |
| | **5,070** | 5,175 |

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

| | Number of employees | |
|---|---|---|
| | **2018** | 2017 |
| HK$1,000,001 to HK$1,500,000 | **1** | — |
| HK$1,500,001 to HK$2,000,000 | **2** | 3 |

## 10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the year | **1,844** | 1,542 |
| (Over)/under-provision in prior years | **(1,207)** | 398 |
| Current – other jurisdiction | | |
| Charge for the year | **569** | — |
| Deferred taxation (note 26) | **1,075** | (4,372) |
| Total tax charge/(credit) for the year | **2,281** | (2,432) |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense/(credit) applicable to loss before tax at the statutory/applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates is as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Loss before tax | (114,887) | (96,359) |
| Tax at the statutory/applicable tax rates of different countries/jurisdictions | (20,222) | (18,278) |
| Adjustments in respect of current tax of previous periods | (1,207) | 398 |
| Profits and losses attributable to associates | 7,007 | 7,440 |
| Income not subject to tax | (24,951) | (26,506) |
| Expenses not deductible for tax | 24,113 | 12,169 |
| Tax losses utilised from previous periods | (354) | (20) |
| Tax losses not recognised | 17,855 | 21,047 |
| Utilisation of deductible temporary differences previously not recognised | (257) | (835) |
| Deductible temporary differences not recognised | 537 | 2,368 |
| Effect of tax concession | (240) | (215) |
| Tax charge/(credit) at the Group's effective rate | 2,281 | (2,432) |

The share of tax attributable to associates amounting to HK$2,773,000 (2017: HK$4,679,000) is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

## 11. DIVIDENDS

The board of directors does not recommend the payment of any dividend in respect of the year ended 31 March 2018 (2017: Nil).

## 12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year of 1,265,142,888 (2017: 883,085,846).

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 March 2018 and 2017 in respect of a dilution as the impact of the share options outstanding had no dilutive effect on the basic loss per share amounts presented.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

The calculations of basic and diluted loss per share are based on:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Loss attributable to ordinary equity holders of the parent used in the basic and diluted loss per share calculations | **(115,581)** | (93,303) |

| | Number of shares | |
|---|---|---|
| | **2018** | 2017 |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculations | **1,265,142,888** | 883,085,846 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings<br>HK$'000 | Leasehold improvements<br>HK$'000 | Plant and machinery<br>HK$'000 | Furniture and equipment<br>HK$'000 | Motor vehicles<br>HK$'000 | Computer system<br>HK$'000 | Construction in progress<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 April 2016 | 187,605 | 57,190 | 36,205 | 42,318 | 2,158 | 18,647 | 450,986 | 795,109 |
| Additions | 95,141 | 18,319 | 205 | 2,483 | 1,517 | 572 | 83,809 | 202,046 |
| Written off | — | (17,236) | (27,782) | (19,342) | (1,477) | (6,180) | — | (72,017) |
| Transfer | 440,935 | 9,364 | 39,171 | 3,524 | — | 1,315 | (494,309) | — |
| Exchange realignment | — | (2) | — | (10) | (50) | (59) | — | (121) |
| At 31 March 2017 and 1 April 2017 | 723,681 | 67,635 | 47,799 | 28,973 | 2,148 | 14,295 | 40,486 | 925,017 |
| Additions | 137 | 8,252 | 5,643 | 4,539 | — | 948 | 18,032 | 37,551 |
| Written off | — | (20,119) | (99) | (11,308) | (7) | (1,862) | — | (33,395) |
| Transfer | — | 9,008 | 18,208 | 2,140 | — | 1,635 | (30,991) | — |
| Exchange realignment | 5,894 | 764 | — | 66 | 44 | 5 | — | 6,773 |
| At 31 March 2018 | 729,712 | 65,540 | 71,551 | 24,410 | 2,185 | 15,021 | 27,527 | 935,946 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Computer system HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment:** | | | | | | | | |
| At 1 April 2016 | 22,439 | 48,809 | 33,168 | 37,667 | 1,513 | 14,236 | — | 157,832 |
| Provided for the year | 5,252 | 3,913 | 1,309 | 1,968 | 246 | 1,766 | — | 14,454 |
| Written off | — | (16,639) | (27,758) | (18,811) | (1,296) | (6,171) | — | (70,675) |
| Exchange realignment | — | — | — | (9) | (29) | (43) | — | (81) |
| At 31 March 2017 and 1 April 2017 | 27,691 | 36,083 | 6,719 | 20,815 | 434 | 9,788 | — | 101,530 |
| Provided for the year | 24,751 | 10,664 | 5,219 | 3,605 | 375 | 2,199 | — | 46,813 |
| Written off | — | (20,119) | (99) | (11,308) | (7) | (1,862) | — | (33,395) |
| Impairment | 7,800 | 3,735 | — | — | — | — | — | 11,535 |
| Exchange realignment | — | — | — | 52 | 30 | 5 | — | 87 |
| At 31 March 2018 | 60,242 | 30,363 | 11,839 | 13,164 | 832 | 10,130 | — | 126,570 |
| **Carrying amount:** | | | | | | | | |
| At 31 March 2018 | 669,470 | 35,177 | 59,712 | 11,246 | 1,353 | 4,891 | 27,527 | 809,376 |
| At 31 March 2017 | 695,990 | 31,552 | 41,080 | 8,158 | 1,714 | 4,507 | 40,486 | 823,487 |

At 31 March 2018, certain of the Group's land and buildings with a net carrying amount of HK$142,666,000 (2017: HK$155,558,000) were pledged to secure general banking facilities granted to the Group (note 25).

As at 31 March 2018, the Group had property, plant and equipment of HK$804,068,000 relating to the cash-generating units of Chinese pharmaceutical and health food products, and the Western pharmaceutical and health food products. As mentioned in note 3 to the financial statements, given that the two CGUs were loss making during the year, an impairment assessment has been performed. For the purpose of impairment assessment of property, plant and equipment, each individual retail store is identified as a separate CGU. As a result of the impairment assessment, impairment losses of HK$7,800,000 (2017: Nil) and HK$3,735,000 (2017: Nil) were recognised in respect of the land and buildings and leasehold improvements of certain retail stores, respectively, which continued to underperform during the year.

As at 31 March 2018, the aggregate carrying amount of property, plant and equipment amounting to HK$17,000,000 represented the recoverable amount of a retail store of the Group for which impairment loss has been recognised during the year. The recoverable amount was determined based on the fair value less costs of disposal based on a market approach which took into account current prices of properties of similar locations and conditions and other unobservable inputs, and accordingly the fair value measurement was categorised within Level 3 of the fair value hierarchy.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 14. INVESTMENT PROPERTIES

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Carrying amount at beginning of year | 479,000 | 510,800 |
| Accrued rent-free rental income | 644 | — |
| Net gains/(losses) from fair value adjustments | 23,356 | (31,800) |
| Carrying amount at end of year | 503,000 | 479,000 |

All of the Group's investment properties are commercial properties in Hong Kong.

The investment properties were revalued by Asset Appraisal Limited (2017: Vigers Appraisal and Consulting Limited), an independent professionally qualified valuer, at 31 March 2018. The finance department of the Group has a team that reviews the valuation performed by the independent valuer for financial reporting purposes and reports directly to senior management of the Company. Discussions of valuation processes and results are held between management and the valuer twice a year when the valuation is performed for interim and annual financial reporting. At the end of each reporting period, the finance department holds discussion with the independent valuer to verify major inputs to the independent valuation report. The finance department also assesses property valuation movements when comparing to the prior year valuation report.

The investment properties are leased to third parties under operating leases, further details of which are included in note 33(a) to the financial statements.

At 31 March 2018, the Group's investment properties with an aggregate carrying value of HK$503,000,000 (2017: HK$479,000,000) and certain rental income generated therefrom were pledged to secure the general banking facilities granted to the Group (note 25).

Further particulars of the Group's investment properties are included on page 145.

### Fair value hierarchy

The recurring fair value measurement for all the commercial properties of the Group uses significant unobservable inputs (Level 3).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | Total HK$'000 |
|---|---|
| Carrying amount at 1 April 2016 | 510,800 |
| Net losses from fair value adjustments recognised in profit or loss | (31,800) |
| Carrying amount at 31 March 2017 and 1 April 2017 | 479,000 |
| Accrued rent-free rental income | 644 |
| Net gains from fair value adjustments recognised in profit or loss | 23,356 |
| Carrying amount at 31 March 2018 | 503,000 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 14. INVESTMENT PROPERTIES (CONTINUED)

### Fair value hierarchy (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| | Valuation techniques | Significant unobservable inputs | Range | |
|---|---|---|---|---|
| | | | 2018 | 2017 |
| Commercial properties | Investment method | Estimated rental value per square foot and per month (HK$) | — | 140 to 320 |
| | | Capitalisation rate | — | 2.3% to 2.9% |
| | Direct comparison method | Price per square foot (HK$) | 63,000 to 147,000 | — |

As at 31 March 2018, the valuations of investment properties were based on the direct comparison method by reference to comparable market transactions and adjusted for differences on location and physical attributes.

As at 31 March 2017, the valuations of investment properties were based on the investment method which capitalises the rent receivable from the existing tenancies and the potential reversionary market rent of the properties, respectively.

A significant increase/(decrease) in the estimated rental value per square foot in isolation would result in a significantly higher/(lower) fair value of the investment properties. A significant increase/(decrease) in the capitalisation rate in isolation would result in a significant lower/(higher) fair value of the investment properties. A significant increase/(decrease) in price per square foot in isolation would result in significantly higher/(lower) fair value of the investment properties.

## 15. GOODWILL

| | HK$'000 |
|---|---|
| At 1 April 2016, 31 March 2017 and 1 April 2017: | |
| Cost | 298,964 |
| Accumulated impairment | (283,629) |
| Net carrying amount | 15,335 |
| Cost at 1 April 2017, net of accumulated impairment | 15,335 |
| Impairment during the year | (7,635) |
| At 31 March 2018 | 7,700 |
| At 31 March 2018: | |
| Cost | 298,964 |
| Accumulated impairment | (291,264) |
| Net carrying amount | 7,700 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 15. GOODWILL (CONTINUED)

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following CGUs for impairment testing:

- Production and sale of Chinese pharmaceutical and health food products CGU (the "Chinese Pharmaceutical CGU"); and
- Production and sale of Western pharmaceutical and health food products CGU (the "Western Pharmaceutical CGU").

The recoverable amounts of both CGUs were determined based on value in use calculations using cash flow projections based on financial budgets covering a five-year period approved by management. The pre-tax discount rates applied to the cash flow projections for the Chinese Pharmaceutical CGU and the Western Pharmaceutical CGU were 11.8% (2017: 11.6%) and 11.8% (2017: 11.4%), respectively. The cash flows beyond the five-year period were extrapolated using a steady growth rate of 3% (2017: 3%).

The carrying amount of goodwill allocated to each of the CGUs is as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Chinese Pharmaceutical CGU | **7,700** | 7,700 |
| Western Pharmaceutical CGU | **—** | 7,635 |
| | **7,700** | 15,335 |

Assumptions were used in the value in use calculation of the CGUs for the years ended 31 March 2018 and 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Forecasted growth rates – The forecasted growth rates are based on historical operating results, expected market development as well as industry forecasts.

Expected changes in selling prices and direct costs – The expected amounts are based on historical operating records and expectation of future changes in the market.

Discount rates – The discount rates are based on estimates of the required rate of returns that reflect the current market assessment of the time value of money, general market risks and the risks specific to the CGUs.

During the years ended 31 March 2018 and 2017, management of the Company determined that there was no impairment of goodwill in the Chinese Pharmaceutical CGU. However, a full impairment of HK$7,635,000 (2017: Nil) was made for the goodwill in the Western Pharmaceutical CGU during the year ended 31 March 2018 as a result of the increase in competition of products similar to the Group in the market, the postponement in the rollout of new products and significant capital investment in the Western Pharmaceutical CGU.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 16. INVESTMENTS IN ASSOCIATES

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Cost of investments in associates: | (a) | | |
| Shares listed in Hong Kong, at cost | (b) | **585,241** | 585,241 |
| Unlisted shares, at cost | | **4,331** | 4,331 |
| Less: Impairment losses recognised | | **(214,815)** | (214,815) |
| | | **374,757** | 374,757 |
| Share of post-acquisition losses and other comprehensive income, net of dividends received | | **(78,111)** | (10,647) |
| Share of other reserve | | **1,502** | 11,464 |
| | | **298,148** | 375,574 |

The Group's trade receivable balances with the associates are disclosed in note 21 to the financial statements.

Particulars of a material associate are as follows:

| Name | Particulars of issued shares held | Place of incorporation/ registration and business | Percentage of ownership interest attributable to the Group | Principal activity |
|---|---|---|---|---|
| Easy One* | Ordinary shares HK$0.01 each | Cayman Islands/ Hong Kong | 23.80 (Note (b)) | Investment holding |

* Listed on the Main Board of the Stock Exchange. The principal activities of the subsidiaries of Easy One are the provision of financial service in Hong Kong and property development in the PRC. The financial statements of this associate are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Notes:

(a) Included in the cost of investments in associates is goodwill arising from the acquisition of Easy One. The movement in the cost of investment attributable to goodwill is set out below.

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| At beginning of year | **27,828** | 27,828 |
| Deemed partial disposal of equity interests in Easy One | **(4,597)** | — |
| At end of year | **23,231** | 27,828 |

(b) On 23 November 2017, Easy One and Kingston Securities Limited ("Kingston"), the placing agent, entered into a placing agreement, pursuant to which Easy One conditionally agreed to allot and issue, and Kingston conditionally agreed to place on a best effort basis, a maximum of 92,000,000 shares of Easy One to not less than six placees at the price of HK$0.235 per placing share (the "2017 Easy One Placing"). The 2017 Easy One Placing was completed on 28 December 2017.

Upon completion of the 2017 Easy One Placing, the Group's equity interests in Easy One were diluted from 28.51% to 23.80% and an aggregate loss on deemed partial disposal of equity interests in Easy One of approximately HK$52,170,000 (2017: Nil) was recognised by the Group for the year ended 31 March 2018 and included in "Share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Notes: (continued)

(c) The following table illustrates the summarised financial information in respect of Easy One, a material associate of the Group, reconciled to the carrying amount in the consolidated financial statements:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Current assets | **1,376,039** | 1,334,235 |
| Non-current assets | **558,284** | 658,395 |
| Current liabilities | **(729,108)** | (490,905) |
| Non-current liabilities | **(77,581)** | (295,627) |
| Net assets | **1,127,634** | 1,206,098 |
| Non-controlling interests | **—** | (4,147) |
| Net assets attributable to the owner of Easy One | **1,127,634** | 1,201,951 |
| Reconciliation to the Group's interest in the associate: | | |
| Proportion of the Group's ownership | **23.80%** | 28.51% |
| Group's share of net assets of the associate, excluding goodwill | **268,377** | 342,676 |
| Goodwill on acquisition (less cumulative impairment) | **23,231** | 27,828 |
| Carrying amount of the investment | **291,608** | 370,504 |

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Revenue | **205,129** | 266,419 |
| Loss for the year | **(160,391)** | (167,471) |
| Other comprehensive income/(loss) for the year | **98,894** | (27,375) |
| Total comprehensive loss for the year | **(61,497)** | (194,846) |
| Dividend received | **—** | — |
| Fair value of the Group's investment | **56,278** | 52,305 |

(d) The following table illustrates the aggregate summarised financial information of the Group's associates that are not individually material:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Share of the associates' profits for the year | **1,470** | 2,655 |
| Aggregate carrying amount of the Group's investments in the associates | **6,540** | 5,070 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 17. LOAN AND INTERESTS RECEIVABLES

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Loan receivable, unsecured | **100,000** | 80,000 |
| Interests receivables | **34,087** | 32,823 |
| | **134,087** | 112,823 |
| Less: Loan receivable classified as a non-current asset | **—** | (80,000) |
| Portion classified as current assets | **134,087** | 32,823 |

The loan receivable is stated at amortised cost with a principal amount of HK$100,000,000 (2017: HK$80,000,000) and an effective interest rate of 6.5% (2017: 6.5%) per annum, and will be due in October 2018. The carrying amount of the loan receivable approximates to its fair value.

At 31 March 2018 and 2017, the loan and interests receivables that are neither past due nor impaired relate to borrowers for whom there was no recent history of default.

## 18. AVAILABLE-FOR-SALE INVESTMENTS

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Listed debt investment, at fair value | **2,029** | — |
| Unlisted debt investment, at fair value | **909,562** | 912,093 |
| | **911,591** | 912,093 |

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$6,263,000 (2017: gross gain of HK$37,204,000).

## 19. INVENTORIES

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Raw materials and consumables | **27,755** | 20,315 |
| Work in progress | **2,898** | 6,784 |
| Finished goods | **152,522** | 142,613 |
| | **183,175** | 169,712 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 20. TRADE AND OTHER RECEIVABLES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Trade receivables | **104,976** | 87,984 |
| Bills receivable | **640** | — |
| Less: Accumulated impairment | **(1,663)** | (2,611) |
| | **103,953** | 85,373 |
| Rental and other deposits | **35,901** | 36,597 |
| Prepayments | **54,250** | 31,709 |
| Other receivables | **8,002** | 19,229 |
| Deposits paid for the acquisition of property, plant and equipment | **36,929** | 10,836 |
| | **135,082** | 98,371 |
| Total trade and other receivables | **239,035** | 183,744 |
| Less: Deposits classified as non-current assets | **(49,475)** | (10,836) |
| Portion classified as current assets | **189,560** | 172,908 |

The Group's trading terms with its retail customers are mainly by cash on delivery whereas the credit terms to wholesale customers are mainly on credit. The credit period ranges from 60 to 120 days. Each customer has a maximum credit limit and the credit limit is reviewed regularly. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within 1 month | **40,676** | 32,007 |
| 1 to 3 months | **35,176** | 30,288 |
| 3 to 6 months | **21,307** | 20,276 |
| Over 6 months | **6,154** | 2,802 |
| | **103,313** | 85,373 |

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of HK$22,518,000 (2017: HK$16,285,000) which were past due at the end of the reporting period for which the Group has not provided for an impairment loss as the directors assessed that the balances will be recovered based on their settlement records. The Group does not hold any collateral over these balances.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 20. TRADE AND OTHER RECEIVABLES (CONTINUED)

An ageing analysis of trade receivables which were past due but not impaired, based on the due date, is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired | **80,795** | 69,088 |
| Less than 1 month past due | **11,142** | 5,606 |
| 1 to 3 months past due | **8,712** | 8,626 |
| 3 to 6 months past due | **1,508** | 679 |
| Over 6 months past due | **1,156** | 1,374 |
| | **103,313** | 85,373 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| At beginning of year | **2,611** | 1,367 |
| Impairment losses recognised, net | **2,327** | 5,017 |
| Amount written off as uncollectible | **(3,275)** | (3,773) |
| At end of year | **1,663** | 2,611 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,178,000 (2017: HK$2,611,000) that are considered irrecoverable by management after consideration of the credit quality of those individual customers based on their settlement records. The Group does not hold any collateral over these balances.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 21. AMOUNTS DUE FROM ASSOCIATES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Trade receivables due from associates | **7,480** | 10,417 |

Trade receivables due from associates are unsecured and interest-free, and the Group allows a credit period of 90 days.

An ageing analysis of the trade receivables due from associates as at the end of the reporting period, based on the invoice date, is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within 1 month | **2,444** | 2,456 |
| 1 to 3 months | **5,036** | 4,983 |
| 3 to 6 months | **—** | 2,878 |
| Over 6 months | **—** | 100 |
| | **7,480** | 10,417 |

As at 31 March 2018 and 2017, substantially all of the trade receivables are neither past due nor impaired. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Listed equity investments at market value | **125,683** | 144,452 |
| Unlisted mutual funds at fair value | **1,910** | 5,851 |
| | **127,593** | 150,303 |

The above financial instruments at 31 March 2018 and 2017 were classified as held for trading or were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

The fair value of unlisted mutual funds is determined based on the quoted market prices provided by fund administrators with reference to prices derived from the over-the-counter market.

At the end of the reporting period, the equity investments at fair value through profit or loss that are denominated in USD, other than the functional currencies of the respective group entities, amounted to HK$1,910,000 (2017: HK$5,851,000).

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 23. BANK BALANCES AND CASH

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Bank balances and cash | **260,864** | 142,768 |
| Time deposits | **159,985** | 180,927 |
| | **420,849** | 323,695 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of six months or less depending on the immediate cash requirements of the Group, and earn interest at the effective short term time deposit rates ranging from 0.0001% to 1.12% (2017: 0.0001% to 0.87%) per annum. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the bank balances and cash approximate to their fair values.

As at 31 March 2018, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$69,382,000 (2017: HK$3,566,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 24. TRADE AND OTHER PAYABLES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Trade payables | **60,177** | 61,077 |
| Rental deposits received | **3,857** | 4,563 |
| Other payables | **24,259** | 33,044 |
| Accruals | **59,719** | 45,370 |
| Receipts in advance | **12,987** | 5,440 |
| | **160,999** | 149,494 |
| Less: Portion classified as non-current liabilities | **(2,450)** | — |
| Portion classified as current liabilities | **158,549** | 149,494 |

An ageing analysis of trade payables as at the end of the reporting period, based on the invoice date is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within 1 month | **52,661** | 22,536 |
| 1 to 3 months | **5,254** | 23,422 |
| 3 to 6 months | **1,704** | 10,201 |
| Over 6 months | **558** | 4,918 |
| | **60,177** | 61,077 |

The trade and other payables are non-interest-bearing. The credit periods on purchase of goods are 30 to 60 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 25. INTEREST-BEARING BANK BORROWINGS

| | 2018 Contractual interest rate (%) | 2018 Maturity | 2018 HK$'000 | 2017 Contractual interest rate (%) | 2017 Maturity | 2017 HK$'000 |
|---|---|---|---|---|---|---|
| **Current:** | | | | | | |
| Bank loans – secured | **HIBOR + (1.56 – 1.65)** | **2018 – 2019** | **264,790** | HIBOR + 1.56 | 2017 – 2018 | 32,290 |
| Bank loans – unsecured | **N/A** | **N/A** | **—** | HIBOR + 1.70 | 2017 – 2018 or on demand | 30,000 |
| | | | **264,790** | | | 62,290 |
| **Non-current:** | | | | | | |
| Bank loans – secured | **HIBOR + 1.56** | **2026** | **662,227** | HIBOR + 1.56 | 2026 | 697,017 |
| | | | **927,017** | | | 759,307 |

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | **264,790** | 62,290 |
| In the second year | **42,290** | 34,790 |
| In the third to fifth years, inclusive | **151,869** | 139,370 |
| Beyond five years | **468,068** | 522,857 |
| | **927,017** | 759,307 |

Notes:

(a) Certain bank loans of the Group are secured by the Group's land and buildings (note13) and investment properties (note 14), together with certain rental income generated therefrom, amounting to HK$142,666,000 (2017: HK$155,558,000) and HK$503,000,000 (2017: HK$479,000,000), respectively.

In addition, the Company has guaranteed the Group's bank loans up to HK$927,017,000 (2017: HK$759,307,000) as at the end of the reporting period.

(b) All bank loans of the Group bear interest at floating interest rates and are denominated in Hong Kong dollars.

(c) The carrying amounts of the bank loans of the Group approximate to their fair values.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 26. DEFERRED TAX

The components of deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

| | Note | Depreciation allowance in excess of related depreciation HK$'000 | Unrealised fair value gain on financial assets at fair value through profit or loss HK'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2016 | | 1,598 | 5,720 | 7,318 |
| Deferred tax charged/(credited) to profit or loss during the year | 10 | 913 | (2,361) | (1,448) |
| At 31 March 2017 and 1 April 2017 | | 2,511 | 3,359 | 5,870 |
| Deferred tax charged to profit or loss during the year | 10 | 24,600 | 1,994 | 26,594 |
| At 31 March 2018 | | 27,111 | 5,353 | 32,464 |

### Deferred tax assets

| | Note | Loss available for offsetting against future taxable profits HK$'000 | Depreciation in excess of related depreciation allowance HK$'000 | Allowance for bad and doubtful debts HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2016 | | 6,616 | 4,166 | 55 | 10,837 |
| Deferred tax credited/(charged) to profit or loss during the year | 10 | 2,992 | (68) | — | 2,924 |
| At 31 March 2017 and 1 April 2017 | | 9,608 | 4,098 | 55 | 13,761 |
| Deferred tax credited to profit or loss during the year | 10 | 24,624 | 676 | 219 | 25,519 |
| At 31 March 2018 | | 34,232 | 4,774 | 274 | 39,280 |

# NOTES TO FINANCIAL STATEMENTS

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## 26. DEFERRED TAX (CONTINUED)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidation statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statements of financial position | **13,196** | 13,761 |
| Net deferred tax liabilities recognised in the consolidated statements of financial position | **(6,380)** | (5,870) |
| | **6,816** | 7,891 |

At the end of the reporting period, the Group has unused tax losses arising in Hong Kong and Macau of HK$417,295,000 (2017: HK$250,069,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has unused tax losses arising in the PRC of HK$8,354,000 (2017: HK$34,084,000) that will expire in one to five years for offsetting against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 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 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 March 2018 and 2017, there were no significant temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised.

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

# NOTES TO FINANCIAL STATEMENTS

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## 27. SHARE CAPITAL

### Shares

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 60,000,000,000 ordinary shares of HK$0.01 each | **600,000** | 600,000 |
| Issued and fully paid: | | |
| 1,265,142,888 ordinary shares of HK$0.01 each | **12,651** | 12,651 |

During the year, the movements in the share capital and share premium account of the Company were summarised as follows:

| | Note | Number of shares in issue | Issued capital HK$'000 | Share premium HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2016 | | 316,285,722 | 3,163 | 1,725,243 | 1,728,406 |
| Issue of rights shares | (a) | 948,857,166 | 9,488 | 398,521 | 408,009 |
| Share issue expenses | (a) | — | — | (7,344) | (7,344) |
| At 31 March 2017, 1 April 2017 and 31 March 2018 | | 1,265,142,888 | 12,651 | 2,116,420 | 2,129,071 |

Note:

(a) On 29 September 2016, the Company completed a rights issue of three rights shares for every one existing share of the Company held by qualifying shareholders at an issue price of HK$0.43 per rights share and a total of 948,857,166 rights shares were issued at a total cash consideration, before expenses, of approximately HK$408,009,000. The related share issue expenses charged to the share premium account amounted to HK$7,344,000.

### Share options

Details of the Company's share option scheme are set out in note 28 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 28. SHARE OPTION SCHEME

The share option scheme adopted by the Company on 18 September 2003 (the "2003 Scheme") was terminated with the approval by the shareholders of the Company at the annual general meeting held on 22 August 2013 and a new share option scheme (the "2013 Scheme") was approved to be adopted by the shareholders of the Company on 22 August 2013. The 2013 Scheme will remain in force for a period of 10 years from that day, unless otherwise terminated earlier by shareholders in a general meeting. As a result, the Company can no longer grant any further options under the 2003 Scheme.

Upon the termination of the 2003 Scheme, no share options were granted thereunder but the subsisting share options granted prior to the termination will continue to be valid and exercisable during the prescribed exercise period in accordance with the terms of the 2003 Scheme.

The 2013 Scheme is for the primary purpose of providing incentives or rewards to selected eligible persons for their contribution or potential contribution to the Company and its subsidiaries.

Pursuant to the 2013 Scheme, the board of directors may grant options to directors and eligible employees of the Company or its subsidiaries to let them subscribe for shares in the Company at a consideration equal to the higher of the closing price of the shares of the Company on the Stock Exchange at the date of offer of grant and the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the options.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK$1. Options may be exercised at any time from the date of grant of the share options up to the tenth anniversary of the date of grant as determined by the directors at their discretion.

The maximum number of shares of the Company in respect of which options may be granted, when aggregated with any other share option scheme of the Company, shall not exceed 30% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the 2013 Scheme. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2013 Scheme shall not exceed 10% of the shares in issue as at the date of approval of the 2013 Scheme.

The total number of shares in respect of which options may be granted to an eligible person under the 2013 Scheme is not permitted to exceed 1% of the aggregate number of shares for the time being issued and issuable under the 2013 Scheme.

No share options under the 2013 Scheme were outstanding as at 31 March 2018 and 2017.

The following share options were outstanding under the 2003 Scheme during the year:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options '000** | Weighted average exercise price HK$ per share | Number of options '000 |
| At beginning of year | **13.350** | **47** | 14.989 | 54 |
| Adjusted upon completion of rights issue | **—** | **—** | — | 5 |
| Forfeited during the year | **9.079** | **(8)** | 13.657 | (12) |
| At end of year | **14.226** | **39** | 13.350 | 47 |

There were no share options granted or exercised for the years ended 31 March 2018 and 2017.

There was no share-based payment recognised during the years ended 31 March 2018 and 2017.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 28. SHARE OPTION SCHEME (CONTINUED)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

**2018**

| Number of options '000 | Exercise price* HK$ per share | Exercise period* |
|---|---|---|
| **20** | **20.6927** | **8.1.2010 to 7.1.2019** |
| **19** | **7.4197** | **12.5.2011 to 11.5.2020** |
| **39** | | |

2017

| Number of options '000 | Exercise price* HK$ per share | Exercise period* |
|---|---|---|
| 21 | 20.6927 | 8.1.2010 to 7.1.2019 |
| 26 | 7.4197 | 12.5.2011 to 11.5.2020 |
| 47 | | |

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The options granted vested as follows:

| | |
|---|---|
| On the 1st anniversary of the date of grant | 30% vested |
| On the 2nd anniversary of the date of grant | Further 30% vested |
| On the 3rd anniversary of the date of grant | Remaining 40% vested |

At the end of the reporting period, the Company had 39,170 (2017: 47,577) share options outstanding under the 2003 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 39,170 additional ordinary shares of the Company and additional share capital of HK$392 (2017: HK$476) and share premium of HK$553,000 (2017: HK$634,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 35,667 share options outstanding under the 2003 Scheme, which represented approximately 0.003% of the Company's shares in issue at that date.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 29. 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 on pages 76 and 77 of the consolidated financial statements.

### (i) Special reserve

The special reserve of the Group represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to a group reorganisation in 1995.

### (ii) Contributed surplus

The contributed surplus represents the credits arising from the capital reduction effected by the Company less the amount utilised for the purpose of the bonus issue of shares by the Company.

### (iii) Other reserve

The other reserve represents the Group's share of other reserve of its associate.

### (iv) Reserve funds

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries in the PRC has been transferred to the reserve funds which are restricted to use.

## 30. WIND-UP OF SUBSIDIARIES

### Year ended 31 March 2017

Two indirect non-wholly-owned subsidiaries of the Group in Singapore were wound up voluntarily during the year ended 31 March 2017.

| | HK$'000 |
|---|---|
| Release of exchange translation reserve upon wind-up | (3,030) |
| Release of non-controlling interest upon wind-up | (510) |
| Gain on wind-up of subsidiaries | 3,540 |
| | — |
| Net inflow of cash and cash equivalents in respect of the wind-up of subsidiaries | — |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 31. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

| | Bank borrowings<br>HK$'000 |
|---|---|
| At 1 April 2017 | 759,307 |
| Changes from financing cash flows | 167,710 |
| At 31 March 2018 | 927,017 |

## 32. PLEDGE OF ASSETS

Details of the Group's bank borrowings which are secured by the assets of the Group are included in notes 13, 14 and 25 to the financial statements.

## 33. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 14) and sub-leases its office premises under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Within one year | **20,085** | 15,264 |
| In the second to fifth years, inclusive | **9,844** | 19,903 |
| | **29,929** | 35,167 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 33. OPERATING LEASE ARRANGEMENTS (CONTINUED)

### (b) As lessee

The Group leases certain of its office properties and retail shops under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years.

Certain leases have contingent rental payable which is based on the turnover of the relevant retail shops. The contingent rent paid for the year was HK$13,296,000 (2017: HK$13,124,000).

At 31 March 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within one year | **59,758** | 74,059 |
| In the second to fifth years, inclusive | **66,299** | 84,977 |
| After five years | **—** | 3,541 |
| | **126,057** | 162,577 |

## 34. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at the end of the reporting period:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| – Property, plant and equipment | **2,575** | 10,971 |
| Acquisition of subsidiaries (note 38) | **315,000** | — |
| | **317,575** | 10,971 |

# NOTES TO FINANCIAL STATEMENTS

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## 35. RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Wang On and its subsidiaries | | | |
| (other than the Group) | | | |
| – Rental income earned by the Group* | (i) | **9,652** | 7,152 |
| – Rental expenses incurred by the Group* | (i) | **9,482** | 10,800 |
| – Management fee incurred by the Group | (i) | **10** | 120 |
| – Sales of Chinese pharmaceutical products by the Group* | (ii) | **9,379** | 7,900 |
| – Acquisition of a debt security | (iii) | **—** | 206,849 |
| Associates | | | |
| – Sales of Chinese pharmaceutical products by the Group | (ii) | **23,488** | 23,059 |
| – Rental income earned by the Group | (i) | **2,044** | 2,858 |
| – Management and promotion fees earned by the Group | (i) | **1,107** | 1,089 |
| – Interest income on a loan earned by the Group | (iv) | **6,464** | 1,585 |

Notes:

(i) The transactions were based on terms mutually agreed between the Group and the related parties.

(ii) The sales to the related parties were made according to the published prices and conditions that the Group offered to its customers.

(iii) On 5 July 2016, the Group entered into a sale and purchase agreement with Double Leads Investments Limited, a wholly-owned subsidiary of Wang On, to acquire a debt security with a principal amount of HK$200,000,000 and its accrued but unpaid interest, at an aggregate consideration of HK$206,849,000. The transaction was completed on 30 September 2016 and such debt security was designated as an available-for-sale investment.

(iv) The interest was charged by the Group on a loan advanced to Easy One. Details of the terms of the relevant loan are set out in note 17 to the financial statements.

* These related party transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

### (b) Compensation of key management personnel of the Group

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Short term employment benefits | **5,905** | 7,271 |
| Post-employment benefits | **71** | 106 |
| | **5,976** | 7,377 |

The above compensation of key management personnel excludes the directors' remuneration, details of which are set out in note 8 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of bank balances and cash, trade receivables, trade payables, financial assets included in prepayments, rental and other deposits, other receivables, amounts due from associates, the current portion of loan and interests receivables, financial liabilities included in other payables and accruals and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the director and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the director. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of loan and interests receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 March 2018 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices, except for one investment which was determined based on market approach with reference to the prices recently paid for similar assets and the market comparable due to the suspension of share trading of the relevant investment. The fair values of unlisted mutual funds are determined based on the quoted market prices provided by fund administrators with reference to prices derived from the over-the-counter market. The fair values of unlisted available-for-sale debt investment has been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The carrying amount and the fair values of the Group's financial instruments, other than those carrying amounts that reasonably approximate to fair value, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **31 March 2018 HK$'000** | 31 March 2017 HK$'000 | **31 March 2018 HK$'000** | 31 March 2017 HK$'000 |
| **Financial assets** | | | | |
| Available-for-sale investments | **911,591** | 912,093 | **911,591** | 912,093 |
| Equity investments at fair value through profit or loss | **127,593** | 150,303 | **127,593** | 150,303 |
| Loan and interests receivables | **134,087** | 112,823 | **134,087** | 112,823 |
| | **1,173,271** | 1,175,219 | **1,173,271** | 1,175,219 |
| **Financial liabilities** | | | | |
| Interest-bearing bank borrowings | **927,017** | 759,307 | **927,017** | 759,307 |

For the fair value of the listed equity investment which is suspended for trading, the market approach is adopted and enterprise value versus earnings before interest, tax, depreciation and amortisation ("EBITDA") ("EV-to-EBITDA"), discount for lack of control ("DLOC") and discount for lack of marketability ("DLOM") were used as inputs to the valuation model. For the fair value of the unlisted available-for-sale debt investment, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value using less favourable assumptions, and an increase in fair value using more favourable assumptions.

# NOTES TO FINANCIAL STATEMENTS

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## 36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 March 2018 and 2017:

| | Valuation technique | Significant unobservable input | Range | Sensitivity of fair value to the input |
|---|---|---|---|---|
| **As at 31 March 2018** | | | | |
| A listed equity investment classified as equity investment at fair value through profit or loss and the share trading of which was suspended | Market approach | EV-to-EBITDA | 18.9 times | 1% increase (decrease) in EV-to-EBITDA would result in increase (decrease) in fair value by HK$70,000 (HK$140,000) |
| | | DLOC | 16.7% | 1% increase (decrease) in DLOC would result in decrease (increase) in fair value by HK$209,000 (HK$209,000) |
| | | DLOM | 10.2% | 1% increase (decrease) in DLOM would result in decrease (increase) in fair value by HK$349,000 (HK$349,000) |
| Unlisted available-for-sale debt investment | Discounted cash flow method | Credit spread | 9.04% | 1% increase (decrease) in credit spread would result in decrease (increase) in fair value by HK$12,699,000 (HK$13,003,000) |
| **As at 31 March 2017** | | | | |
| Unlisted available-for-sale debt investment | Discounted cash flow method | Credit spread | 9.06% | 1% increase (decrease) in credit spread would result in decrease (increase) in fair value by HK$19,449,000 (HK$19,449,000) |

# NOTES TO FINANCIAL STATEMENTS

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## 36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value:

**As at 31 March 2018**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Available-for-sale investments | 2,029 | — | 909,562 | 911,591 |
| Equity investments at fair value through profit or loss | 102,163 | 1,910 | 23,520 | 127,593 |
| | 104,192 | 1,910 | 933,082 | 1,039,184 |

As at 31 March 2017

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Available-for-sale investment | — | — | 912,093 | 912,093 |
| Equity investments at fair value through profit or loss | 144,452 | 5,851 | — | 150,303 |
| | 144,452 | 5,851 | 912,093 | 1,062,396 |

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The movements in fair value measurements in Level 3 during the years are as follows:

| | HK$'000 |
|---|---|
| At 1 April 2016 | 671,521 |
| Acquisition | 200,000 |
| Imputed interest income recognised in profit or loss | 3,368 |
| Gain recognised in other comprehensive income | 37,204 |
| At 31 March 2017 and 1 April 2017 | 912,093 |
| Transfer from Level 1 to Level 3 (note) | 36,225 |
| Imputed interest income recognised in profit or loss | 3,732 |
| Loss recognised in profit or loss | (12,705) |
| Loss recognised in other comprehensive income | (6,263) |
| At 31 March 2018 | 933,082 |

The Group did not have any financial liabilities measured at fair value as at 31 March 2018 and 2017.

Note:

The transfer from Level 1 to Level 3 was due to the suspension of share trading of an equity investment at FVTPL during the year. The Group's policy is to recognise transfers into and transfer out of Level 3 as at the date of event on change in circumstances that caused the transfer.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 25 to the financial statements, net of cash and cash equivalents and equity attributable to owners of the parent, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

# NOTES TO FINANCIAL STATEMENTS

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## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from associates, loan and interests receivables, available-for-sale investments, equity investments at fair value through profit or loss, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and price risk), liquidity risk and credit risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

**Market risks**

*(i) Currency risk*

The Company and several subsidiaries of the Company have foreign currency sales and purchases and foreign currency bank deposits, which expose the Group to foreign currency risk. Approximately 1.9% (2017: 1.1%) of the Group's bank deposits are denominated in currencies other than the functional currencies of the group entities. Substantially all of the Group's sales are denominated in the relevant group entities' functional currencies, whilst almost 84.0% (2017: 75.6%) of the purchase costs are denominated in the relevant group entities' functional currencies.

The Group currently does not implement hedging activities to hedge against foreign currency exposure.

Sensitivity analysis

The Group is mainly exposed to the foreign exchange rate fluctuation of the foreign currencies stated above against the functional currencies of the respective group entities.

If the RMB exchange rate had increased/decreased by 5% and other variables were held constant, the Group's loss for the year ended 31 March 2018 would have increased/decreased by HK$383,000 (2017: HK$480,000).

The Group's exposures to currency risk of other currencies are considered insignificant by the directors and therefore no sensitivity analysis has been prepared.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### a. Financial risk management objectives and policies (continued)

**Market risks (continued)**

*(ii) Interest rate risk*

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 25 to the financial statements) and bank deposits (see note 23 to the financial statements) at prevailing market interest rates. The Group has not used any interest rate swaps to hedge its interest rate risk and will consider hedging significant interest rate risk should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of one to three months Hong Kong Interbank Offered Rate. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings and bank deposits at the end of the reporting period. The analysis is prepared assuming that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the year ended 31 March 2018 would have increased/decreased by HK$3,202,000 (2017: HK$2,414,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate bank borrowings.

The Group's exposures to interest rate risk on bank balances are considered insignificant by the directors and therefore no sensitivity analysis has been prepared.

*(iii) Price risk*

The Group is exposed to price risk because the fair value of equity investments at fair value through profit or loss is measured by reference to the prevailing market price. Details of equity investments at fair value through profit or loss are set out in note 22 to the financial statements.

The Group currently does not have a policy to hedge the price risk. However, management closely monitors such risk by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity investments at fair value through profit or loss at the end of the reporting period. The analysis is prepared assuming that the amount outstanding at the end of the reporting period was outstanding for the whole year. A 10% (2017: 10%) increase or decrease is used when reporting price risk internally to key management personnel and represents management's assessment of the reasonably possible change in the prevailing market price.

If the market price of equity investments at fair value through profit or loss had increased/decreased by 10% (2017: 10%) and all other variables were held constant, the Group's loss for the year ended 31 March 2018 would have decreased/increased by HK$10,654,000 (2017: HK$12,550,000).

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### a. Financial risk management objectives and policies (continued)

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates of all financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest cash flows are at floating rates, the undiscounted amount is derived from the interest rate at the end of the reporting period.

| | Weighted average interest rate % | On demand or less than 1 year HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| **As at 31 March 2018** | | | | | | |
| Trade and other payables | — | 145,562 | 2,450 | — | 148,012 | 148,012 |
| Bank borrowings - variable rates | 2.16 | 278,893 | 307,734 | 425,005 | 1,011,632 | 927,017 |
| | | 424,455 | 310,184 | 425,005 | 1,159,644 | 1,075,029 |
| As at 31 March 2017 | | | | | | |
| Trade and other payables | — | 144,054 | — | — | 144,054 | 144,054 |
| Bank borrowings - variable rates | 2.01 | 76,933 | 290,126 | 493,342 | 860,401 | 759,307 |
| | | 220,987 | 290,126 | 493,342 | 1,004,455 | 903,361 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**Credit risk**

As at 31 March 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group has a concentration of credit risk in a loan advanced to Easy One of HK$100,000,000 (2017: HK$80,000,000) and an unlisted debt investment issued by CAP of HK$909,562,000 (2017: HK$912,093,000) as set out in notes 17 and 18 to the financial statements, respectively. As Easy One and CAP are listed entities, the management of the Group reviews their published financial information regularly to ensure that the principal and interest are recoverable at the respective maturity dates.

In order to minimise the credit risk on trade and other receivables, the management of the Group has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### b. Capital management

The primary objective 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2018 and 2017.

The Group monitors capital using a net gearing ratio, which is net debt divided by equity attributable to equity holders of the Company. Net debt is calculated as the total of interest-bearing bank borrowings, less bank balances and cash. The gearing ratios as at the end of the reporting periods were as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Interest-bearing bank borrowings (note 25) | **927,017** | 759,307 |
| Less: Bank balances and cash (note 23) | **(420,849)** | (323,695) |
| Net debt | **506,168** | 435,612 |
| Equity attributable to owners of the parent | **2,554,504** | 2,651,791 |
| Gearing ratio | **20%** | 16% |

## 38. EVENT AFTER THE REPORTING PERIOD

On 7 February 2018, Guidepost Investments Limited, an indirectly wholly-owned subsidiary of the Group, entered into an agreement with Wang On Properties Limited ("WOP"), a 75%-owned listed subsidiary of Wang On and East Run Investments Limited, an indirectly wholly-owned subsidiary of WOP, in respect of the acquisition of the entire issued share capital and shareholder's loans of four indirectly wholly-owned subsidiaries of WOP at a total cash consideration of HK$350,000,000. These subsidiaries are property holding companies that hold four retail shops located in Hong Kong. The acquisition was completed on 25 April 2018 and the Group plans to use all of the four properties as retail outlets.

## 39. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and re-presented to conform to the current year's presentation.

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | — | — |
| | — | — |
| CURRENT ASSETS | | |
| Due from subsidiaries | **2,959,091** | 2,729,576 |
| Other receivables | **345** | 4,752 |
| Equity investments at fair value through profit or loss | **43,299** | 31,210 |
| Tax recoverable | — | 1,306 |
| Bank balances and cash | **124,817** | 198,240 |
| | **3,127,552** | 2,965,084 |
| CURRENT LIABILITIES | | |
| Due to subsidiaries | **729,255** | 580,280 |
| Other payables | **4,282** | 3,028 |
| | **733,537** | 583,308 |
| NET CURRENT ASSETS | **2,394,015** | 2,381,776 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **2,394,015** | 2,381,776 |
| NON-CURRENT LIABILITY | | |
| Deferred tax liability | **4,739** | 3,359 |
| Net assets | **2,389,276** | 2,378,417 |
| EQUITY | | |
| Issued capital | **12,651** | 12,651 |
| Reserves (note) | **2,376,625** | 2,365,766 |
| Total equity | **2,389,276** | 2,378,417 |

**Tang Ching Ho**
*Director*

**Chan Chun Hong, Thomas**
*Director*

# NOTES TO FINANCIAL STATEMENTS

31 March 2018

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

| | Note | Share premium HK$'000 | Special reserve HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2016 | | 1,725,243 | (27,150) | 275,693 | 493 | 39,655 | 2,013,934 |
| Loss and total comprehensive loss for the year | | — | — | — | — | (39,345) | (39,345) |
| Issue of rights shares | 27(a) | 398,521 | — | — | — | — | 398,521 |
| Share issue expenses | 27(a) | (7,344) | — | — | — | — | (7,344) |
| Forfeiture of share options | | — | — | — | (110) | 110 | — |
| At 31 March 2017 and 1 April 2017 | | 2,116,420 | (27,150) | 275,693 | 383 | 420 | 2,365,766 |
| Profit and total comprehensive income for the year | | — | — | — | — | 10,859 | 10,859 |
| Forfeiture of share options | | — | — | — | (51) | 51 | — |
| At 31 March 2018 | | 2,116,420 | (27,150) | 275,693 | 332 | 11,330 | 2,376,625 |

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited after the vesting period.

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 June 2018.

# PARTICULARS OF PROPERTIES

## INVESTMENT PROPERTIES

| Location | Use | Tenure | Attributable interest of the Group |
|---|---|---|---|
| Shop B, G/F, Nos. 23-33 Shui Wo Street, Kwun Tong, Kowloon | Commercial premises for rental | Medium term lease | 100% |
| Shop G, 103 Hip Wo Street, Kwun Tong, Kowloon | Commercial premises for rental | Medium term lease | 100% |
| G/F, 581 Nathan Road, Mongkok, Kowloon | Commercial premises for rental | Medium term lease | 100% |
| G/F, Bowring Building, No. 14 Bowring Street, Kowloon | Commercial premises for rental | Medium term lease | 100% |
| Shop A, G/F, No. 76B To Kwa Wan Road, Kowloon | Commercial premises for rental | Long term lease | 100% |
| Shop B, G/F, the Cockloft Yan Oi House, No. 237 Sha Tsui Road, No. 87 & 89 Chuen Lung Street, Tsuen Wan, New Territories | Commercial premises for rental | Medium term lease | 100% |

# FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified/re-presented as appropriate, is set out below.

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2018 HK$'000** | 2017 HK$'000 | 2016 HK$'000 | 2015 HK$'000 | 2014 HK$'000 |
| CONTINUING OPERATIONS | | | | | |
| Revenue | **845,781** | 738,440 | 825,331 | 831,088 | 865,258 |
| Profit/(loss) before tax from continuing operations | **(114,887)** | (96,359) | 29,066 | 120,778 | 171,874 |
| Income tax credit/(expense) | **(2,281)** | 2,432 | (3,839) | (17) | (3,676) |
| Profit/(loss) for the year from continuing operations | **(117,168)** | (93,927) | 25,227 | 120,761 | 168,198 |
| DISCONTINUED OPERATION | | | | | |
| Profit/(loss) for the year from a discontinued operation | **—** | — | — | 90 | (5,096) |
| PROFIT/(LOSS) FOR THE YEAR | **(117,168)** | (93,927) | 25,227 | 120,851 | 163,102 |
| Attributable to: | | | | | |
| Owners of the parent | **(115,581)** | (93,303) | 25,387 | 120,979 | 163,374 |
| Non-controlling interests | **(1,587)** | (624) | (160) | (128) | (272) |
| | **(117,168)** | (93,927) | 25,227 | 120,851 | 163,102 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | **2018 HK$'000** | 2017 HK$'000 | 2016 HK$'000 | 2015 HK$'000 | 2014 HK$'000 |
| Total assets | **3,656,461** | 3,573,251 | 3,237,452 | 2,823,903 | 2,348,948 |
| Total liabilities | **(1,096,436)** | (915,528) | (907,896) | (777,948) | (508,047) |
| | **2,560,025** | 2,657,723 | 2,329,556 | 2,045,955 | 1,840,901 |
| Equity attributable to owners of the parent | **2,554,504** | 2,651,791 | 2,322,490 | 2,038,729 | 1,833,547 |
| Non-controlling interests | **5,521** | 5,932 | 7,066 | 7,226 | 7,354 |
| | **2,560,025** | 2,657,723 | 2,329,556 | 2,045,955 | 1,840,901 |