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**LONGRUN TEA GROUP COMPANY LIMITED**  
**龍潤茶集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2898)**

**ANNOUNCEMENT OF FINAL RESULTS**  
**FOR THE YEAR ENDED 31 MARCH 2018**

The board of directors (the “Board”) of Longrun Tea Group Company Limited (the “Company”) announces the consolidated final results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2018, together with the comparative figures for the year ended 31 March 2017, as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the year ended 31 March 2018*

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	<b>2017</b> <i>HK\$'000</i>
<b>Revenue</b>	4	<b>81,670</b>	123,690
Cost of sales		<u><b>(48,158)</b></u>	<u>(72,712)</u>
Gross profit		<b>33,512</b>	50,978
Other income	4	<b>3,601</b>	6,416
Interest income from loan receivable	12	<b>683</b>	5,863
Equity-settled share option expense	16	–	(6,311)
Gain on disposal of items of property, plant and equipment, net		<b>58</b>	168
Selling and distribution expenses		<b>(30,429)</b>	(39,448)
Administrative expenses		<b>(30,946)</b>	(30,996)
Other expenses		<b>(41)</b>	(17,185)
Finance costs	6	<u><b>(10,325)</b></u>	<u>(1,652)</u>

	<i>Notes</i>	<b>2018</b> <b><i>HK\$'000</i></b>	2017 <i>HK\$'000</i>
<b>Loss before tax</b>	<i>5</i>	<b>(33,887)</b>	(32,167)
Income tax expense	<i>7</i>	<u>(15)</u>	<u>(264)</u>
<b>Loss for the year</b>		<b><u>(33,902)</u></b>	<b><u>(32,431)</u></b>
<b>Loss attributable to owners of the Company</b>		<b><u>(33,902)</u></b>	<b><u>(32,431)</u></b>
<b>Loss per share attributable to owners of the Company</b>	<i>9</i>		
Basic		<b><u>HK(2.34) cents</u></b>	<b><u>HK(2.24) cents</u></b>
Diluted		<b><u>HK(2.34) cents</u></b>	<b><u>HK(2.24) cents</u></b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Loss for the year</b>	<b><u>(33,902)</u></b>	<b><u>(32,431)</u></b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>13,836</u>	<u>(8,905)</u>
<b>Other comprehensive income/(loss) for the year, net of income tax</b>	<u>13,836</u>	<u>(8,905)</u>
<b>Total comprehensive loss for the year</b>	<b><u>(20,066)</u></b>	<b><u>(41,336)</u></b>
<b>Total comprehensive loss attributable to owners of the Company</b>	<b><u>(20,066)</u></b>	<b><u>(41,336)</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 March 2018*

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	<b>2,401</b>	2,566
Available-for-sale financial assets		<b>7,500</b>	–
<b>Total non-current assets</b>		<b>9,901</b>	2,566
<b>Current assets</b>			
Inventories		<b>2,119</b>	3,974
Trade receivables	<i>11</i>	<b>27,010</b>	25,392
Prepayments, deposits and other receivables		<b>8,967</b>	6,661
Loan receivable	<i>12</i>	–	161,055
Time deposits with original maturities of more than three months		<b>96,313</b>	30,593
Cash and cash equivalents		<b>153,336</b>	111,439
<b>Total current assets</b>		<b>287,745</b>	339,114
<b>Current liabilities</b>			
Trade payables	<i>13</i>	<b>1,661</b>	22,383
Other payables, accruals and receipts in advance		<b>48,435</b>	56,047
Finance leases payables		<b>267</b>	409
Convertible bonds		<b>58,767</b>	–
Income tax payables		<b>2</b>	–
Due to related companies		<b>168</b>	1,409
Due to directors of the Company		<b>3,750</b>	3,507
<b>Total current liabilities</b>		<b>113,050</b>	83,755
<b>Net current assets</b>		<b>174,695</b>	255,359
<b>Total assets less current liabilities</b>		<b>184,596</b>	257,925

	<i>Notes</i>	<b>2018</b> <b><i>HK\$'000</i></b>	2017 <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Convertible bonds	<i>14</i>	–	52,032
Finance leases payables		<b>200</b>	467
Deferred income		<b>186</b>	1,150
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>386</b>	53,649
		<hr/>	<hr/>
<b>Net assets</b>		<b>184,210</b>	204,276
		<hr/> <hr/>	<hr/> <hr/>
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	<i>15</i>	<b>72,576</b>	72,576
Reserves		<b>111,634</b>	131,700
		<hr/>	<hr/>
<b>Total equity</b>		<b>184,210</b>	204,276
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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2018*

## 1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). During the year, the Group was involved in the trading and distribution of pharmaceutical products, tea products and other food products. The head office and principal place of business of the Company is Room 3007A-B, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

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

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

These consolidated financial statements have been prepared on the historical cost convention except for available-for-sale financial assets that are measured at fair values on initial recognition and at subsequent period end dates. These consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the Company’s functional currency, and all values are rounded to the nearest thousand except when otherwise indicated.

The principal accounting policies and methods of computation used by the Group in the preparation of the consolidated financial statements for the year ended 31 March 2018 are consistent with those adopted in the consolidated financial statements for the year ended 31 March 2017, except for the adoption of the new and revised HKFRSs as explained below. The Group has not applied any new standard that is not yet mandatorily effective for the current accounting period.

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

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

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

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

Except for the HKAS 7 Amendments as described below, the application of above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the Group's consolidated financial statements.

Details of impact of application of HKAS 7 Amendments – "*Disclosure Initiative*" are illustrated as below:

The Group shall apply these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

A reconciliation between opening and closing balances of liabilities arising from financing activities is set out in the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior years.

### 3. SEGMENT INFORMATION

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

- (a) the “Distribution of pharmaceutical products” segment engages in the trading and distribution of pharmaceutical products; and
- (b) the “Distribution of tea and other food products” segment engages in the trading and distribution of tea and other food products.

Directors monitor the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment (loss)/profit, which represents the loss from/profit earned by each segment without allocation of bank interest income, interest income from loan receivable, finance costs, write off of items of property, plant and equipment, gain on disposal of items of property, plant and equipment, equity-settled share option expense, exchange gain as well as head office and corporate expenses.

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

Segment liabilities exclude finance lease payables, convertible bonds, income tax payables and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.



(a) Operating segments

	Distribution and trading of pharmaceutical products <i>HK\$'000</i>	Distribution and trading of tea and other food products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 March 2018</b>			
<b>Segment revenue:</b>			
Sales to external customers	4,642	77,028	81,670
Other income	102	2,200	2,302
	<u>4,744</u>	<u>79,228</u>	<u>83,972</u>
<b>Segment results</b>	(6,838)	(4,263)	(11,101)
<i>Reconciliation:</i>			
Bank interest income			1,299
Interest income from loan receivable			683
Gain on disposal of items of property, plant and equipment, net			58
Corporate and other unallocated expenses			(14,501)
Finance costs			(10,325)
Loss before tax			<u>(33,887)</u>
<b>As at 31 March 2018</b>			
<b>Segment assets</b>	3,060	37,211	40,271
<i>Reconciliation:</i>			
Available-for-sale financial assets			7,500
Time deposits with original maturities of more than three months			96,313
Cash and cash equivalents			153,336
Corporate and other unallocated assets			226
Total assets			<u>297,646</u>
<b>Segment liabilities</b>	1,519	38,797	40,316
<i>Reconciliation:</i>			
Convertible bonds			58,767
Finance leases payables			467
Income tax payables			2
Corporate and other unallocated liabilities			13,884
Total liabilities			<u>113,436</u>
<b>Year ended 31 March 2018</b>			
<b>Other segment information:</b>			
Impairment losses recognised on inventories in the consolidated statement of profit or loss	10	–	10
Impairment losses recognised on trade receivables in the consolidated statement of profit or loss	–	2,819	2,819
Impairment losses reversed on trade receivables in the consolidated statement of profit or loss	–	(2,730)	(2,730)
Impairment losses reversed on other receivables in the consolidated statement of profit or loss	–	(68)	(68)
Depreciation	544	501	1,045
Capital expenditure*	239	483	722

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

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

**(b) Geographical information**

*(i) Revenue from external customers:*

	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
The People Republic of China (the "PRC"), excluding Hong Kong	<b>72,154</b>	113,397
Hong Kong	<b>4,642</b>	5,722
Elsewhere in Asia	<b>1,798</b>	3,230
United States of America	<b>3,076</b>	1,341
	<b><u>81,670</u></b>	<u>123,690</u>

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

*(ii) Non-current assets:*

	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
The PRC, excluding Hong Kong	<b>1,705</b>	1,558
Hong Kong	<b>696</b>	1,008
	<b><u>2,401</u></b>	<u>2,566</u>

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

**(c) Information about major customers**

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

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

#### 4. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Revenue</b>		
Sale of goods	<b>81,670</b>	123,690
<b>Other income</b>		
Franchise income	<b>1,583</b>	1,528
Bank interest income	<b>1,299</b>	2,324
Subsidy income <sup>^</sup>	<b>406</b>	2,223
Rental income	<b>144</b>	140
Exchange gain	–	10
Others	<b>169</b>	191
	<b>3,601</b>	6,416

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

## 5. LOSS BEFORE TAX

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

	<i>Notes</i>	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
Cost of inventories recognised as an expense		<b>46,496</b>	71,412
Depreciation		<b>1,045</b>	1,414
Minimum lease payments under operating leases of offices and shops premises		<b>8,305</b>	10,425
Auditors' remuneration			
– Audit services		<b>930</b>	1,930
– Non-audit services		<b>338</b>	300
Employee benefits expense (excluding directors' remuneration):			
Salaries, allowances and benefits in kind		<b>22,420</b>	26,460
Pension scheme contributions		<b>2,190</b>	4,772
Equity-settled share option expense <sup>^</sup>		–	1,629
		<b>24,610</b>	32,861
Provision for slow-moving and obsolete inventories*		<b>10</b>	101
Exchange gain <sup>#</sup>		–	(10)
Impairment losses of trade receivables <sup>@</sup>	<i>11</i>	<b>2,819</b>	18,142
Write off of items of property, plant and equipment <sup>@</sup>		–	383
Impairment losses of other receivables <sup>@</sup>		–	118
Reversal of impairment losses of trade receivables <sup>@</sup>	<i>11</i>	<b>(2,730)</b>	(1,459)
Reversal of impairment losses of other receivables <sup>@</sup>		<b>(68)</b>	–

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

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

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

<sup>^</sup> The amount is related to share options granted to employees of the Company.

## 6. FINANCE COSTS

		2018	2017
	<i>Note</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Interest on finance leases		26	38
Effective interest expense on convertible bonds	14	<u>10,299</u>	<u>1,614</u>
		<b><u>10,325</u></b>	<b><u>1,652</u></b>

## 7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries do not generate any assessable profits arising in Hong Kong during the current year (2017: Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit). Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

		2018	2017
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current – Hong Kong			
Underprovision in prior years		<u>–</u>	<u>1</u>
Current – PRC Enterprise Income Tax			
Charge for the year		15	17
Underprovision in prior years		<u>–</u>	<u>246</u>
Total income tax expense for the year		<b><u>15</u></b>	<b><u>264</u></b>

## 8. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2018 (2017: Nil).

## 9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of approximately HK\$33,902,000 (2017: HK\$32,431,000), and the weighted average number of ordinary shares of approximately 1,451,520,000 (2017: 1,450,161,000) in issue during the year.

For both years ended 31 March 2018 and 2017, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and exercise of outstanding share options since their assumed exercises would result in a decrease in loss per share.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of HK\$722,000 (2017: HK\$995,000) and disposed of property, plant and equipment with an aggregate net book value of HK\$8,000 (2017: HK\$Nil).

## 11. TRADE RECEIVABLES

	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Trade receivables	<b>50,094</b>	46,175
<i>Less: impairment losses</i>	<b><u>(23,084)</u></b>	<u>(20,783)</u>
	<b><u>27,010</u></b>	<u>25,392</u>

The Group's trading terms with its customers are mainly on credit, except for new customers of which payment in advance is normally required. The credit period generally ranges from 30 to 90 days (2017: 30 to 90 days). Due to the continuous slowdown in traditional retail sales of the consumer goods in the PRC resulted from gradually deceleration of the economic development in the PRC in recent years, the discouragement of excessive hospitality such as gifting by the PRC government and the consolidation and enhanced regulation of the PRC direct selling industry, operating performances of certain customers were adversely affected and these customers are in financial difficulties so that proportion of long aged trade receivables increased during the year. Accordingly, the Group seeks to maintain strict control over its outstanding receivables. Regarding those major customers, the Group uses an internal credit rating system to assess those customers' credit qualities, defines credit limits by customer and performs follow up procedures on settlements of outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company and impairment of trade receivables are provided to trade receivables that are overdue over 3 months and without settlements during the reporting period and subsequent to the end of the reporting period. Trade receivables are non-interest-bearing.

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

	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Within 1 month	<b>4,859</b>	5,676
2 to 3 months	<b>6,429</b>	8,056
4 to 12 months	<b>14,580</b>	10,481
Over 12 months	<b>1,142</b>	1,179
	<u><b>27,010</b></u>	<u>25,392</u>

An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date, that are not individually nor collectively considered to be impaired is as follows:

	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current (neither past due nor impaired)	<b>5,148</b>	6,249
Within 1 to 3 months overdue	<b>6,140</b>	12,193
Within 4 to 12 months overdue	<b>15,722</b>	6,950
	<u><b>27,010</b></u>	<u>25,392</u>

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

	<i>Notes</i>	<b>2018</b>	2017
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
At beginning of year		<b>20,783</b>	4,745
Impairment losses recognised	5	<b>2,819</b>	18,142
Impairment losses reversed	5	<b>(2,730)</b>	(1,459)
Amounts written off as uncollectible		<b>(11)</b>	–
Exchange realignment		<b>2,223</b>	(645)
		<u><b>23,084</b></u>	<u>20,783</u>
At end of year		<b>23,084</b>	20,783



Included in the above provision for impairment of the trade receivables are individually impaired trade receivables with an aggregate balance of HK\$23,084,000 (2017: HK\$20,783,000). These individually impaired receivables are related to customers that are in financial difficulties and the directors of the Company assess that the chance of recoverability is remote.

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

Included in the Group's trade receivables are trade receivables due from 理想科技集團有限公司 (Ideality Technology Group Company Limited)<sup>@</sup> (the "Ideality Group"), a related party of the Group, of approximately HK\$5,329,000 (2017: HK\$6,941,000), which are repayable on similar credit terms to those offered to the major customers of the Group. Included in the balances due from Ideality Group, there are approximately HK\$2,350,000 (2017: HK\$4,126,000) which are past due at the end of the reporting period. Based on past experience, the directors of the Company determine that no provision for impairment is necessary in respect of these balances as there are no significant change in credit quality of the balances and most of these balances as at 31 March 2018 are settled subsequent to the end of the reporting period. Ideality Group is beneficially owned as to 85.5% and 14.5% by Dr. Chiu Ka Leung ("Dr. Chiu") and Mr. Jiao Shaoliang ("Mr. Jiao"), respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company.

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

## 12. LOAN RECEIVABLE

	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Fixed-rate loan receivable	–	155,138
Interest receivable on loan receivable	–	5,917
	<hr/>	<hr/>
Amount due within 1 year shown as current asset	<b>–</b>	<b>161,055</b>
	<hr/> <hr/>	<hr/> <hr/>

The loan receivable was granted to a party which is an independent third party of the Group or any of the directors of the Company. The loan receivable was denominated in Renminbi (“RMB”), which was unsecured, interest-bearing at fixed rate of 9% per annum and would be repayable within 6 months after the available date of releasing advance as prescribed in the loan agreement, which was approved by the directors of the subsidiary of the Group. The loan interest income of approximately HK\$683,000 (2017: HK\$5,863,000) was recognised as the “Interest income from loan receivable” in the consolidated statement of profit or loss. At 31 March 2017, the loan and interest receivable have been past due and repayable on demand. During the year ended 31 March 2018, the loan receivable and interest thereon are fully repaid. Details of loan receivable are set out in the announcement of the Company dated 28 February 2018.

## 13. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

An aged analysis of the trade payables as at the end of the reporting period, based on the payment due date, is as follows:

	<b>2018</b>	2017
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current and not past due	<b>1,176</b>	9,535
Within 1 to 3 months overdue	<b>2</b>	11,585
Within 4 to 12 months overdue	–	731
Over 12 months overdue	<b>483</b>	532
	<hr/>	<hr/>
	<b>1,661</b>	22,383
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Yunnan Longrun Tea Group Company Limited <sup>@</sup> ("LRTG")		
雲南龍潤茶業集團有限公司	<b>646</b>	7,779
Fengqing Longrun Tea Company Limited <sup>@</sup> ("FLRT")		
鳳慶龍潤茶業有限公司	<b>397</b>	6,721
Changning Longrun Tea Company Limited <sup>@</sup> ("CLRT")		
昌寧縣龍潤茶業有限公司	<b>128</b>	7,038
Yunnan Longfar Pharmaceutical Company Limited <sup>@</sup> ("YNLF")		
雲南龍發製藥股份有限公司	<b>33</b>	316
	<b>1,204</b>	21,854

FLRT and CLRT are wholly-owned subsidiaries of LRTG. LRTG is beneficially owned as to 97% and 3% by Dr. Chiu and Mr. Jiao respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company. YLRT is beneficially owned as to 77% and 23% by Dr. Chiu and Mr. Jiao respectively. YNLF is beneficially owned as to 89.4% and 10% by Dr. Chiu and Mr. Jiao respectively. The trade payables to related parties are non-interest bearing and are normally settled on 90-day terms.

<sup>@</sup> *Official names of these entities are in Chinese. The English translation of these names is for identification purpose only.*

#### 14. CONVERTIBLE BONDS

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

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

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

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

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

The Convertible Bonds recognised were calculated as follows:

		<i>HK\$'000</i>	
<b>Equity component</b>			
Proceeds at the date of issuance			64,800
Transaction cost attributable to issuance of			
Convertible Bonds allocated to equity component			(365)
Liability component, at the date of issuance			<u>(51,886)</u>
<b>Equity component at 31 March 2017, 1 April 2017 and 31 March 2018</b>			<b><u>12,549</u></b>
		<b>2018</b>	2017
	<i>Note</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Liability component</b>			
At the beginning of the year		<b>52,032</b>	–
At the date of issuance		–	51,886
Transaction cost attributable to issuance of			
Convertible Bonds allocated to			
liability component		–	(1,468)
Effective interest expense	6	<b>10,299</b>	1,614
Interest paid		<u><b>(3,564)</b></u>	–
<b>Liability component at the end of the year</b>		<b><u>58,767</u></b>	<b><u>52,032</u></b>

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

## 15. SHARE CAPITAL

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$0.05 each	<u>250,000</u>	<u>250,000</u>
	<b>Number of ordinary shares of HK\$0.05 each</b>	<b>Amount <i>HK\$'000</i></b>
<i>Issued and fully paid:</i>		
At 1 April 2016	1,449,520,000	72,476
Exercise of share options ( <i>note</i> )	<u>2,000,000</u>	<u>100</u>
<b>At 31 March 2017, 1 April 2017 and 31 March 2018</b>	<b><u>1,451,520,000</u></b>	<b><u>72,576</u></b>

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

### Share options

Details of the Company's share option scheme and the share options are included in note 16 to this announcement of final results.

## 16. EQUITY COMPENSATION PLANS

### Share Option Scheme

The Company operates a share option scheme adopted by the Company on 17 August 2012 with a resolution passed at the annual general meeting (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The Scheme became effective on 17 August 2012 and, unless otherwise cancelled or amended, would remain in force for 10 years from that date. The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme is 144,952,000, representing approximately 10% of the shares of the Company in issue as at the date of adoption of the Scheme and the date of approval of these consolidated financial statements.

The maximum number of shares issuable under share options granted to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

A grant of share options under the Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted, to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company’s shares at the date of grant) in excess of HK\$5 million, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options under the Scheme may be accepted within 28 days from the date of offer upon payment of a nominal consideration of HK\$10 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such a period shall not be more than 10 years from the date of offer of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 25 November 2016, the Company granted total of 53,400,000 share options to executive directors and independent non-executive directors of the Company and certain employees of the Group under the Scheme, pursuant to which the Company agreed to grant each of them an option to subscribe for shares of the Company in the consideration of HK\$0.3 each with no fulfilment of the conditions under the Scheme. The grant of the options is part of the incentive offered to the grantees for their past contribution to the diversification of the business of the Group to the food and beverage sector and the supervision of the acquired tea and other food product business.

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

	<b>Weighted average exercise price HK\$ per share</b>	<b>Number of share options</b>
At 1 April 2016	0.3	–
Share options granted during the year	0.3	53,400,000
Share options exercised during the year	0.3	<u>(2,000,000)</u>
<b>At 31 March 2017, 1 April 2017 and 31 March 2018</b>		<b><u>51,400,000</u></b>

No share options were granted, exercised or lapsed under the Scheme during the year ended 31 March 2018.

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

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

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

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

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the year ended 31 March 2018, the revenue of the Group decreased by approximately 34.0% to approximately HK\$81,670,000 from approximately HK\$123,690,000 for the year ended 31 March 2017. The gross profit of the Group decreased by approximately 34.3% to approximately HK\$33,512,000 for the year ended 31 March 2018 from approximately HK\$50,978,000 for the year ended 31 March 2017. The decrease in revenue is mainly attributable to (i) the continuous modification of rules and regulations by the local government on tourism related selling activities; and (ii) the effect of industry consolidation and enhanced regulation of the direct selling industry in the PRC.

Selling and distribution expenses decreased by approximately 22.9% from approximately HK\$39,448,000 for the year ended 31 March 2017 to approximately HK\$30,429,000 for the year ended 31 March 2018. Administrative expenses amounted to approximately HK\$30,946,000 for the year ended 31 March 2018, roughly remaining at the same level of approximately HK\$30,996,000 for the year ended 31 March 2017.

Other expenses decreased to approximately HK\$41,000 for the year ended 31 March 2018 from approximately HK\$17,185,000 for the year ended 31 March 2017. The decrease was mainly due to the decrease in impairment of trade receivables.

Other income decreased to approximately HK\$3,601,000 for the year ended 31 March 2018 from approximately HK\$6,416,000 for the year ended 31 March 2017. Such decrease was due to the decrease in bank interest income and various one-off government subsidies.

For the year ended 31 March 2018, the Group recorded interest income from loan receivable of approximately HK\$683,000 as compared to an interest income from loan receivable of approximately HK\$5,863,000 for the year ended 31 March 2017. Such decrease in interest income was due to the full settlement of loan receivable in the first quarter of the current financial year.

In addition, the Group did not incur any equity-settled share option expense for the year ended 31 March 2018 as compared to equity-settled share option expense of approximately HK\$6,311,000 in relation to the grant of share options to certain eligible participants under the Scheme adopted by the Company on 17 August 2012 for the year ended 31 March 2017.

Finance cost increased to approximately HK\$10,325,000 for the year ended 31 March 2018 from approximately HK\$1,652,000 for the year ended 31 March 2017. Such increase was due to the increase in effective interest expenses on convertible bonds.

Loss attributable to owners of the Company for the year ended 31 March 2018 was approximately HK\$33,902,000 (2017: loss attributable to owners of the Company of HK\$32,431,000).

Basic loss per share was HK2.34 cents for the year ended 31 March 2018 against basic loss per share of HK2.24 cents for the year ended 31 March 2017.

## **Business Review**

### ***Tea and Other Food Products Businesses***

During the year under review, the Group focused on distributing tea and other food products under the well-established “Longrun” (龍潤) brand in the PRC market. The poor spending sentiment has continued to affect the consumer market in the PRC generally.

During the year under review, revenue from tea and other food products businesses was approximately HK\$77,028,000 (2017: HK\$117,861,000), accounting for approximately 94.3% (2017: 95.3%) of the Group’s total revenue.

### ***Tea Shops***

Our traditional and convenient tea products, i.e. tea cake, loose tea leaves, tea gift set, convenient tea cups, instance tea essence and tea bags, etc., are sold in traditional tea shops. As at 31 March 2018, the Group managed a network comprising a total of over 600 tea shops (self-owned and franchised) primarily located in Mainland China. Given the competitive consumer market, the management will continue to actively manage the network with a view to enhance brand and product recognitions in the PRC.

### ***Mega Retail Outlets Targeting Tourists***

The Group has been operating mega retail outlets in Yunnan Province targeting both domestic and international tourists travelling to Yunnan Province. The Group now operates three Mega Retail Outlets in Kunming, Yunnan Province with a gross total area over 10,000 square meters. Given the continuous modification of rules and regulations by the local government of tourism related selling activities, the operating environment of tourists related retail sales will remain very challenging in the future.

<b>Location of Mega Retail Outlet</b>	<b>Highlight</b>
Kunming International Convention and Exhibition Center (昆明國際會展中心)	A place for international exhibitions and fairs
Kunming World Horticultural Expo Garden (昆明世界園藝博覽園)	A must-see tourist attraction in Kunming
Lijiang City (麗江市)	The world famous “Old Town of Lijiang” which is a UNESCO Heritage Site

### ***Direct Selling***

The Group started to distribute its tea products through direct selling platform in 2014. During the year under review, revenue generated from direct selling network are still affected by the consolidation and enhanced regulation of the PRC direct selling industry. However, the effect of industry consolidation and enhanced regulation of the direct selling industry is expected to decrease over time.

### ***Healthcare and Pharmaceutical Business***

During the year under review, revenue from healthcare and pharmaceutical business was approximately HK\$4,642,000 (2017: HK\$5,829,000), accounting for approximately 5.7% (2017: 4.7%) of the Group’s total revenue.

## **Prospect**

Traditional retail sales of consumer goods in the PRC has been under tremendous pressure, showing a continuous slowdown. It is likely that the general consumer market in China will continue to face uncertainties and remain very competitive.

Despite the uncertainties, we will continue to focus on brand building, new product development and new distribution channel development. The Group's continuous effort in exploring new business opportunities in the direct selling area has paid off. At the end of the financial year under review, the Group had finalized business cooperation with one of the largest direct selling enterprises in the PRC. The Group has started to supply tea products to this new customer in the second quarter of 2018.

In addition, the Group will continue to explore opportunities to set up our own tea manufacturing base in Yunnan Province with a view to reduce reliance on our suppliers.

## **Liquidity and Financial Resources**

The Group has consistently maintained sufficient working capital. As at 31 March 2018, the Group had current assets of HK\$287,745,000 (2017: HK\$339,114,000) and cash and bank balances (including cash and cash equivalents and time deposits with original maturities of more than three months) of HK\$249,649,000 (2017: HK\$142,032,000). The Group's current liabilities as at 31 March 2018 were HK\$113,050,000 (2017: HK\$83,755,000).

As at 31 March 2018, total equity was HK\$184,210,000 (2017: HK\$204,276,000). The Group had finance lease payables of HK\$467,000 as at 31 March 2018 (2017: HK\$876,000). The gearing ratio as at 31 March 2018, being the ratio of total liabilities to total equity, was 61.6% (2017: 67.3%).

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

## **Employees**

As at 31 March 2018, the Group had 244 employees (2017: 339 employees).

Remuneration policy and package for the Group’s employees are reviewed and approved by the Board on a periodical basis. The Group remunerates its employees based on industry practice and performance of the Group and individual employees. The Group also makes available the Scheme and offers discretionary bonus to its employees.

## **Contingent Liabilities**

As at 31 March 2018, the Group did not have any significant contingent liabilities.

## **Exchange Risk**

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

## **Pledge of the Group's Assets**

As at 31 March 2018, there was no pledge of the Group's assets.

## **Audit Findings**

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

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

## **SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED**

The figures in respect of the preliminary announcement of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of other comprehensive income and the related notes thereto for the year ended 31 March 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited which has been appointed and in place of EY in October 2017, to the amounts set out in the Group's consolidated financial statements for the year ended 31 March 2018. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Moore Stephens CPA Limited on this preliminary announcement.

## **EXTRACT OF INDEPENDENT AUDITOR'S REPORT**

The following is an extract from the report issued by Moore Stephens CPA Limited, the Group's auditor, on the consolidated financial statements of the Group for the year ended 31 March 2018:

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2018 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **Basis for Disclaimer of Opinion**

There was a loan receivable and corresponding interest receivable with the carrying amount of HK\$155,138,000 (equivalent to RMB137,570,000) and HK\$5,917,000 (equivalent to RMB5,247,000) which were only recorded in the Group's consolidated statement of financial position in May 2017 (the "Loan"). Prior to the Loan being recognised as a loan receivable in the Group's consolidated statement of financial position, the said balance of RMB137,570,000 was included in the bank balances account in the accounting books of the Group. During the year ended 31 March 2018, the Loan and the corresponding interest receivables of approximately HK\$169,836,000 (equivalent to RMB143,394,000) were received by the Group and presented in the consolidated statement of cash flows under investing activities. Interest income from the Loan of approximately HK\$683,000 (equivalent to RMB577,000) was recognised in the consolidated statement of profit or loss during the year ended 31 March 2018.

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

Given the circumstances described above and the significance of the Loan to the consolidated financial statements, we were unable to perform audit procedures to satisfy ourselves regarding the nature and reasons for the discrepancies described above, particularly the omission of recording the Loan and interest in the Group's accounting books and consolidated financial statements until the discovery of discrepancies in the bank balances by the predecessor auditors of the Company in May 2017. The scope of our audit work was limited and we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about these matters, as well as the underlying commercial reasons of entering into the Loan. Any adjustments found to be necessary may have significant effects on the figures as at and for the year ended 31 March 2017 presented as comparative figures in these consolidated financial statements and hence on the comparability of the current year's figures and the comparative figures.



The matters which were the subject matters of the scope limitation referred to above no longer have possible effects on the figures presented in the consolidated statement of financial position of the Group as at 31 March 2018. However, the closing balances as at 31 March 2017 of the assets and liabilities of the Group, including that of the Loan, are brought forward as the opening balances as at 1 April 2017 and hence entered into the determination of the financial performance and cash flows of the Group for the current financial year ended 31 March 2018. Hence, any adjustments found to be necessary to the closing balances of the assets and liabilities as at 31 March 2017 in respect of the Loan may have significant effects on the Group's results and cash flows for the year ended 31 March 2018 and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 31 March 2018. Accordingly, we were also unable to determine whether adjustments might have been necessary in respect of the performance and cash flows of the Group for the year ended 31 March 2018 reported in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

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

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

## **DIVIDEND**

The Board does not recommend the payment of any dividend for the year ended 31 March 2018 (2017: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 19 December 2018 to Monday, 24 December 2018 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on 24 December 2018, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 18 December 2018.

## **AUDIT COMMITTEE**

The audit committee of the Company, comprising the Company's three independent non-executive directors (being Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun), has reviewed with management the consolidated financial statements for the year ended 31 March 2018, including accounting principles and practices adopted by the Group, and discussed internal controls, risk management and financial reporting matters.

## **CORPORATE GOVERNANCE**

The Company recognises the importance of corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the year ended 31 March 2018, except for code provision A.4.2 which states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every 3 years.

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

## **CONTINUED SUSPENSION OF TRADING**

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 15 June 2017 and will remain suspended pending the fulfilment of the resumption conditions imposed by the Stock Exchange. Details as to the resumption conditions were set out in the Company's announcement dated 20 September 2017.

## **APPRECIATION**

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board  
**Logrun Tea Group Company Limited**  
**Chiu Ka Leung**  
*Chairman of the Board*

Hong Kong, 10 October 2018

*As at the date of this announcement, the executive directors of the Company are Dr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang and Dr. He William (also known as Lu Pingguo); and the independent non-executive directors of the Company are Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua.*