LongRun
龍潤

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 2017

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 2017, together with the comparative figures for the year ended 31 March 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*4*	**123,690**	217,659
Cost of sales		**(72,712)**	(141,870)
Gross profit		**50,978**	75,789
Other income	*4*	**6,416**	8,208
Interest income from loan receivable	*13*	**5,863**	–
Equity-settled share option expense	*17*	**(6,311)**	–
Gain on disposal of items of property, plant and equipment, net		**168**	84
Gain on disposal of subsidiaries	*18*	**–**	18,811
Selling and distribution expenses		**(39,448)**	(59,138)
Administrative expenses		**(30,996)**	(32,438)
Other expenses		**(17,185)**	(6,501)
Finance costs	*6*	**(1,652)**	(16)

	Notes	2017 HK$'000	2016 HK$'000
(Loss)/profit before tax	*5*	**(32,167)**	4,799
Income tax expense	*7*	**(264)**	(2,385)
(Loss)/profit for the year		**(32,431)**	2,414
(Loss)/profit attributable to owners of the Company		**(32,431)**	2,414
(Loss)/earnings per share attributable to owners of the Company	*9*		
Basic		**HK$(2.24) cents**	HK$0.17 cents
Diluted		**HK$(2.24) cents**	HK$0.17 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	2017	2016
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(32,431)**	2,414
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(8,905)**	(7,886)
Release of exchange fluctuation reserve on disposal of subsidiaries	**–**	(9,914)
Other comprehensive loss for the year, net of income tax	**(8,905)**	(17,800)
Total comprehensive loss for the year	**(41,336)**	(15,386)
Total comprehensive loss attributable to owners of the Company	**(41,336)**	(15,386)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current asset			
Property, plant and equipment	*10*	**2,566**	3,504
Total non-current asset		**2,566**	3,504
Current assets			
Inventories		**3,974**	3,816
Trade and bills receivables	*12*	**25,392**	49,387
Prepayments, deposits and other receivables		**6,661**	58,145
Loan receivable	*13*	**161,055**	–
Income tax recoverable		**–**	181
Time deposits with original maturities of more than three months		**30,593**	156,338
Cash and cash equivalents		**111,439**	53,053
Total current assets		**339,114**	320,920
Current liabilities			
Trade payables	*14*	**22,383**	28,455
Other payables, accruals and receipts in advance		**56,047**	55,958
Finance lease payables		**409**	293
Due to related companies		**1,409**	644
Due to directors of the Company		**3,507**	7,945
Total current liabilities		**83,755**	93,295
Net current assets		**255,359**	227,625
Total assets less current liabilities		**257,925**	231,129

	Notes	**2017** HK$'000	2016 HK$'000
Non-current liabilities			
Convertible bonds	*15*	**52,032**	–
Finance lease payables		**467**	456
Deferred income		**1,150**	4,521
Total non-current liabilities		**53,649**	4,977
Net assets		**204,276**	226,152
Equity			
Equity attributable to owners of the Company			
Issued share capital	*16*	**72,576**	72,476
Reserves		**131,700**	153,676
Total equity		**204,276**	226,152

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

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

The principal accounting policies and methods of computation used by the Group in the preparation of the consolidated financial statements for the year ended 31 March 2017 are consistent with those adopted in the consolidated financial statements for the year ended 31 March 2016, except for the adoption of the new and revised HKFRSs as explained 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:

Adoption of new and revised HKFRSs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

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

(a) the "Manufacturing and distribution of pharmaceutical products" segment engages in the manufacturing, sale and distribution of pharmaceutical products; and

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

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

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

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

(a) Operating segments

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

	Manufacturing and distribution of pharmaceutical products *HK$'000*	Distribution of tea and other food products *HK$'000*	Total *HK$'000*
Year ended 31 March 2016			
Segment revenue:			
Sales to external customers	48,845	168,814	217,659
Other income	1,078	3,026	4,104
	49,923	171,840	221,763
Segment results	(5,896)	1,001	(4,895)
Reconciliation:			
Gain on disposal of subsidiaries			18,811
Bank interest income			4,104
Impairment of items of property, plant and equipment			(1,805)
Gain on disposal of items of property, plant and equipment, net			84
Corporate and other unallocated expenses			(11,484)
Finance costs			(16)
Profit before tax			4,799
As at 31 March 2016			
Segment assets	52,880	61,776	114,656
Reconciliation:			
Time deposits with original maturities of more than three months			156,338
Cash and cash equivalents			53,053
Income tax recoverable			181
Corporate and other unallocated assets			196
Total assets			324,424
Segment liabilities	1,731	79,243	80,974
Reconciliations:			
Finance leases payables			749
Corporate and other unallocated liabilities			16,549
Total liabilities			98,272
Year ended 31 March 2016			
Other segment information:			
Impairment losses recognised in the consolidated statement of profit or loss	3,287	6,769	10,056
Impairment losses reversed in the consolidated statement of profit or loss	(172)	(100)	(272)
Depreciation and amortisation	3,815	989	4,804
Capital expenditure*	2,966	2,063	5,029

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

(b) Geographical information

(i) Revenue from external customers:

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

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

(ii) Non-current assets:

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

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

(c) Information about major customers

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

Revenue of approximately HK$27,442,000 for the year ended 31 March 2016 was derived from sales to a single major customer, which contributed 10% or more sales to the Group's revenue, including sales to a group of entities which are known to be under common control with that customer.

4. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

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

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

5. (LOSS)/PROFIT BEFORE TAX

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

	Note	**2017** **HK$'000**	2016 HK$'000
Cost of inventories recognised as an expense		**71,412**	135,823
Depreciation		**1,414**	4,665
Amortisation of prepaid land lease payments	*11*	**–**	139
Minimum lease payments under operating leases of offices and buildings		**10,425**	15,470
Auditor's remuneration			
– Audit services		**1,930**	1,030
– Non-audit services		**300**	315
Employee benefits expense (excluding directors' remuneration):			
Salaries, allowances and benefits in kind		**26,460**	38,007
Pension scheme contributions		**4,772**	1,117
Equity-settled share option expense^		**1,629**	–
		32,861	39,124
Provision for slow-moving and obsolete inventories*		**101**	3,399
Exchange gain#		**(10)**	–
Impairment losses of trade receivables@	*12*	**18,142**	4,730
Impairment losses of items of property, plant and equipment@		**–**	1,805
Write off of items of property, plant and equipment@		**383**	–
Impairment losses of other receivables@		**118**	122
Reversal of impairment losses of trade receivables@	*12*	**(1,459)**	(272)

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

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

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

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

6. FINANCE COSTS

	Note	**2017**	2016
		HK$'000	*HK$'000*
Interest on finance leases		**38**	16
Effective interest expense on convertible bonds	*15*	**1,614**	–
		1,652	16

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group does not generate any assessable profits arising in Hong Kong during the current year (2016: Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit). Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2017	2016
	HK$'000	*HK$'000*
Current – Hong Kong		
Underprovision in prior years	**1**	–
Current – PRC Enterprise Income Tax		
Charge for the year	**17**	2,912
Underprovision/(overprovision) in prior years	**246**	(490)
	263	2,422
Deferred tax	**–**	(37)
Total income tax expense for the year	**264**	2,385

8. DIVIDEND

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

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

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

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

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

10. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of HK$995,000 (2016: HK$5,029,000) and disposed of property, plant and equipment with an aggregate net book value of HK$Nil (2016: HK$122,000).

11. PREPAID LAND LEASE PAYMENTS

		2017	2016
	Notes	***HK$'000***	*HK$'000*
Carrying amount at beginning of year		**–**	5,500
Amortised during the year	*5*	**–**	(139)
Disposal of subsidiaries	*18*	**–**	(5,153)
Exchange realignment		**–**	(208)
Carrying amount at end of year		**–**	–

12. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

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

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

Receivables that are past due but not impaired are related to a number of independent customers that have 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 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)[@] ("Ideality Group"), a related party of the Group, of approximately HK$6,941,000 (2016: HK$4,860,000), which are repayable on similar credit terms to those offered to the major customers of the Group. All balances are due within 12 months and no impairment loss is provided. 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.

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

13. LOAN RECEIVABLE

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

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

14. TRADE PAYABLES

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

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

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

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

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

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.

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

15. CONVERTIBLE BONDS

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

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

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

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

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

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

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

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

16. ISSUED SHARE CAPITAL

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

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

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

Share options

Details of the Company's share option scheme and the share options are included in note 17 to this announcement of final results.

17. 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:

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

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

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

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

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

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

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

18. DISPOSAL OF SUBSIDIARIES

In November and December 2015, the Group disposed of its entire interest in YNLF to 雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited)[@], a company beneficially owned as to 90% by Dr. Chiu and as to 10% by Mr. Jiao respectively, for a consideration of HK$52,000,000, and its entire interest in 雲南龍潤實業有限公司 (Yunnan Longrun Enterprise Company Limited)[@] ("YNLE") to an independent third party for a cash consideration of HK$241,000, respectively. YNLF is principally engaged in the manufacture and distribution of pharmaceutical products and YNLE is an investment holding company.

		2016
	Note	*HK$'000*
Net assets disposed of:		
Property, plant and equipment		15,370
Prepaid land lease payments	*11*	5,153
Inventories		26,470
Trade receivables		8,170
Prepayments and other receivables		3,682
Due from a related company		2,192
Cash and bank balances		17,881
Trade payables		(18,870)
Other payables and accruals		(15,763)
Due to a related company		(898)
Income tax recoverable		283
Deferred tax liabilities		(326)
		43,344
Release of exchange fluctuation reserve upon disposal		(9,914)
Gain on disposal of subsidiaries		18,811
		52,241
Satisfied by:		
Consideration receivable		52,000
Cash		241
		52,241

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

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2016
	HK$'000
Cash consideration	241
Cash and bank balances disposed of	(17,881)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(17,640)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

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

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

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

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

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

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

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

Business Review

Tea and Other Food Products Businesses

During the year under review, the Group focused on distributing tea and other food products under the well-established "Longrun（龍潤）" brand in the PRC market. The continued poor spending sentiment and confidence of consumer has still been affecting the consumer market in the PRC.

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

Tea Shops

Our traditional and convenient tea products i.e. tea cake, loose tea leaves, tea gift set, convenient tea cups, instance tea essence and tea bags, etc. are sold in traditional tea shops. As at 31 March 2017, the Group managed a network comprising a total of over 600 self-owned and franchised tea shops primarily in the PRC.

Mega Retail Outlet Targeting Tourists

Besides the traditional tea shops, the Group also focuses on the tourists market. The Group has been operating mega retail outlets in Yunnan Province targeting both domestic and international tourists travelling to Yunnan Province. The Group operates three Mega Retail Outlets in Kunming, Yunnan Province with a gross total area over 10,000 square meters.

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

Direct Selling

The Group started to distribute its tea products through direct selling platforms in 2014. During the year under review, revenue generated from direct selling network was adversely affected by the consolidation and the enhanced regulations of the PRC direct selling industry.

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

Healthcare and Pharmaceutical Business

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

Prospect

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

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

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

Liquidity and Financial Resources

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

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

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

Employees

As at 31 March 2017, the Group had 335 employees (2016: 413 employees).

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

Contingent Liabilities

As at 31 March 2017, the Group did not have any significant contingent liabilities.

Exchange Risk

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

Pledge of the Group's Assets

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

Audit Findings

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

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

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 comprehensive income and the related notes thereto for the year ended 31 March 2017 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 2017. 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 2017:

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

Basis for Disclaimer of Opinion

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

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

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

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

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

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

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

Other matter

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

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

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 2017 (2016: Nil).

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 2017, 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 the 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 2017, except for code provision E.1.2. Code provision E.1.2 stipulates that the chairman of a listed issuer should attend the issuer's annual general meeting. Dr. Chiu Ka Leung, the Chairman of the Company, was unable to attend the Company's annual general meeting held on 29 August 2016 due to other business engagement. In view of his absence, Dr. Chiu had arranged for Mr. Jiao Shaoliang, the Company's executive director who is well versed in the Group's business activities and operations, to attend and chair the meeting and communicate with the shareholders. The chairman of the Audit Committee and the member of the Remuneration Committee and the Nomination Committee of the Company (i.e. Mr. Lam Siu Hung), the Company Secretary and other senior management were also available to answer questions from the shareholders at that meeting. No question was raised by any shareholders during the said meeting.

Subsequent to the year ended 31 March 2017, the publication of annual results and dispatch of annual report for the years ended 31 March 2017 and 2018, as well as the publication of interim results and dispatch of interim report for the six months ended 30 September 2017, are deferred due to the Audit Findings. Accordingly, the Company failed to hold its annual general meeting within the times stipulated under the Listing Rules and the 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 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
Longrun 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.