



LongRun
龍潤

LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2898



20
INTERIM
REPORT 18



CONTENTS

	Page
Corporate Information	2
Condensed Consolidated Interim Financial Information	
– Condensed Consolidated Statement of Profit or Loss	3
– Condensed Consolidated Statement of Comprehensive Income	4
– Condensed Consolidated Statement of Financial Position	5
– Condensed Consolidated Statement of Changes in Equity	7
– Condensed Consolidated Statement of Cash Flows	8
– Notes to Condensed Consolidated Interim Financial Information	10
Management Discussion and Analysis	36
Supplementary Information	42

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Chiu Ka Leung *Chairman*
Ms. Yeh Shu Ping *Vice-chairman and
Chief Executive
Officer*

Mr. Jiao Shaoliang
Dr. He William (also known as
Lu Pingguo)

Independent Non-executive Directors

Mr. Lam Siu Hung
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua

AUDIT COMMITTEE

Mr. Lam Siu Hung *Chairman*
Mr. Guo Guoqing
Mr. Kwok Hok Lun

REMUNERATION COMMITTEE

Mr. Lam Siu Hung *Chairman*
Dr. Chiu Ka Leung
Ms. Yeh Shu Ping
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua

NOMINATION COMMITTEE

Dr. Chiu Ka Leung *Chairman*
Mr. Lam Siu Hung
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua

INTERNAL CONTROL COMMITTEE

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

COMPANY SECRETARY

Mr. Hui Pang To *FCCA, CPA*

REGISTERED OFFICE

P.O. Box 10008, Willow House,
Cricket Square,
Grand Cayman KY1-1001,
Cayman Islands.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3007A-B, Cable TV Tower,
9 Hoi Shing Road, Tsuen Wan,
New Territories, Hong Kong.

AUDITOR

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

LEGAL ADVISERS

As to Hong Kong law:

Stevenson, Wong & Co.
39/F, Gloucester Tower, The Landmark,
15 Queen's Road Central, Hong Kong.

Hastings & Co.
5/F, Gloucester Tower, The Landmark,
11 Pedder Street, Central, Hong Kong.

INTERNAL CONTROL ADVISOR

Baker Tilly Hong Kong Risk
Assurance Limited
2nd Floor, 625 King's Road,
North Point, Hong Kong.

PRINCIPAL BANKERS

China Construction Bank (Asia)
Corporation Limited
Fubon Bank (Hong Kong) Limited
The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House,
Cricket Square,
Grand Cayman KY1-1001,
Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE & STOCK CODE

www.longruntea.com
2898



CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The board (the "Board") of directors (the "Directors") of Longrun Tea Group Company Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2018, together with the comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2018

	Notes	For the six months ended 30 September	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
REVENUE	2	56,644	45,261
Cost of sales		(40,816)	(27,088)
Gross profit		15,828	18,173
Other income and gains	3	7,017	1,899
Interest income from loan receivable		–	666
Selling and distribution expenses		(17,025)	(14,009)
Administrative expenses		(14,920)	(15,122)
Other operating expenses		(4,237)	(12)
Finance costs	4	(5,655)	(5,009)
LOSS BEFORE TAX	5	(18,992)	(13,414)
Income tax expense	6	(720)	(7)
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		(19,712)	(13,421)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
– Basic		HK(1.36) cents	HK(0.92) cent
– Diluted		HK(1.36) cents	HK(0.92) cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
LOSS FOR THE PERIOD	(19,712)	(13,421)
OTHER COMPREHENSIVE (LOSS)/INCOME		
<i>Items that may be reclassified subsequently to profit and loss:</i>		
Changes in fair value of available-for-sale financial assets	–	(150)
Exchange differences arising on translation of foreign operations	(12,251)	5,297
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF INCOME TAX	(12,251)	5,147
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	(31,963)	(8,274)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

		30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	4,501	2,401
Available-for-sale financial assets		–	7,500
Total non-current assets		4,501	9,901
CURRENT ASSETS			
Inventories		4,793	2,119
Trade receivables	10	28,801	27,010
Prepayments, deposits and other receivables		8,721	8,967
Time deposits with original maturities of more than three months		–	96,313
Cash and cash equivalents		214,286	153,336
Total current assets		256,601	287,745
CURRENT LIABILITIES			
Trade payables	11	1,038	1,661
Other payables, accruals and receipts in advance		30,319	48,435
Contract liabilities		12,759	–
Finance lease payables		115	267
Convertible bonds	12	62,632	58,767
Income tax payables		722	2
Due to related companies	17(b)(i)	177	168
Due to directors of the Company	17(b)(ii)	1,727	3,750
Total current liabilities		109,489	113,050

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 September 2018

	Notes	30 September 2018 (Unaudited) <i>HK\$'000</i>	31 March 2018 (Audited) <i>HK\$'000</i>
Net current assets		147,112	174,695
Total assets less current liabilities		151,613	184,596
NON-CURRENT LIABILITIES			
Finance lease payables		142	200
Deferred income		–	186
Contract liabilities		64	–
Total non-current liabilities		206	386
NET ASSETS		151,407	184,210
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	72,576	72,576
Reserves		78,831	111,634
TOTAL EQUITY		151,407	184,210



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Employee share-based compensation reserve <i>HK\$'000</i>	Convertible bonds equity reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 April 2018 (audited)	72,576	253,001*	300*	6,129*	12,549*	-*	13,635*	(173,980)*	184,210
Transitional adjustments on initial application of Hong Kong Financial Reporting Standard ("HKFRS") 9 (Note 1.1.2)	-	-	-	-	-	-	(43)	(797)	(840)
At 1 April 2018 (adjusted)	72,576	253,001	300	6,129	12,549	-	13,592	(174,777)	183,370
Loss for the period	-	-	-	-	-	-	-	(19,712)	(19,712)
Other comprehensive loss for the period:									
Changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(12,251)	-	(12,251)
Total comprehensive loss for the period	-	-	-	-	-	-	(12,251)	(19,712)	(31,963)
At 30 September 2018 (unaudited)	72,576	253,001*	300*	6,129*	12,549*	-*	1,341*	(194,489)*	151,407
At 1 April 2017 (audited)	72,576	253,001	300	6,129	12,549	-	(201)	(140,078)	204,276
Loss for the period	-	-	-	-	-	-	-	(13,421)	(13,421)
Other comprehensive loss for the period:									
Changes in fair value of available-for-sale financial assets	-	-	-	-	-	(150)	-	-	(150)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	5,297	-	5,297
Total comprehensive loss for the period	-	-	-	-	-	(150)	5,297	(13,421)	(8,274)
At 30 September 2017 (unaudited)	72,576	253,001	300	6,129	12,549	(150)	5,096	(153,499)	196,002

* *These reserve accounts comprise the consolidated reserves of approximately HK\$78,831,000 (unaudited) (31 March 2018: HK\$111,634,000) in the condensed consolidated statement of financial position.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

		For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES			
Cash used in operations		(29,924)	(30,282)
Income tax paid		–	(7)
Net cash flows used in operating activities		(29,924)	(30,289)
INVESTING ACTIVITIES			
Bank interest received	3	912	556
Purchases of items of property, plant and equipment		(3,259)	(452)
Proceeds from disposal of items of property, plant and equipment		30	21
Purchases of available-for-sale financial assets		–	(7,500)
Proceeds from disposal of financial assets at fair value through profit or loss		12,891	–
Repayments from loan receivable and interest receivables		–	165,706
Withdrawal/(placement) in short term time deposits with original maturities of more than three months		96,313	(145)
Net cash flows from investing activities		106,887	158,186



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the six months ended 30 September 2018

	Notes	For the six months ended 30 September	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
FINANCING ACTIVITIES			
Repayments of finance lease payables		(210)	(203)
Payment of interests on convertible bonds	12	(1,782)	(1,782)
Payment of interests on finance leases (Repayments of advances)/advances from directors of the Company		(8)	(15)
		(2,023)	206
Net cash flows used in financing activities		(4,023)	(1,794)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		72,940	126,103
Cash and cash equivalents at beginning of period		153,336	111,439
Effect of foreign exchange rate changes, net		(11,990)	2,330
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
		214,286	239,872
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		133,314	149,651
Time deposits with original maturities of less than three months		80,972	90,221
CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS			
		214,286	239,872

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2018

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE

The condensed consolidated interim financial information for the six months ended 30 September 2018 of the Group has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The preparation of the condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 March 2018 that is included in the condensed consolidated interim financial information as comparative information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2018 are available from the Company’s principal place of business in Hong Kong. The auditor has disclaimed an opinion on those financial statements in its report dated 10 October 2018.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2018. The accounting policies and methods of computation adopted in the preparation of the condensed consolidated interim financial information are the same as those used in the annual financial statements for the year ended 31 March 2018, except in relation to the following new and revised HKFRSs as explained below.



1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE

(Continued)

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC)-Int. 22	Foreign Currency Transactions and Advance Consideration
HKFRS 2 Amendments	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 Amendments	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 1 and HKAS 28 Amendments	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 Amendments	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transitional provisions in the respective standards and amendments which resulted in changes in accounting policies, amounts reported and/or disclosures as described below. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

1.1 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

1.1.1 Key changes in accounting policies resulting from application of HKFRS 9

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

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

The Directors reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 1.1.2. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities.

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

1.1 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments (Continued)

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

(ii) *Expected credit losses*

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

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expect to receive).

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.



1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

1.1 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments (Continued)

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

(ii) Expected credit losses (Continued)

Measurement of ECLs (Continued)

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

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount.

As at 1 April 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 1.1.2.

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE
(Continued)

1.1 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments (Continued)

1.1.2 Summary of effects arising from initial application of HKFRS 9

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

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

(a) *Available-for-sale financial assets*

At the date of initial application of HKFRS 9, the Group's equity investments of HK\$7,500,000 were reclassified from available-for-sale financial assets to financial assets at FVTPL. No fair value change relating to those equity investments was adjusted to financial assets at FVTPL and accumulated losses as at 1 April 2018 as the amount was previously carried at fair value. Since the Group did not have accumulated asset revaluation reserve relating to those equity investments as at 31 March 2018, thus no transfer between asset revaluation reserve and accumulated losses is required upon initial application of HKFRS 9.

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

1.1 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments (Continued)

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

(b) *Impairment under ECL model*

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

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

	Impairment allowance under HKAS 39 HK\$'000	Effect of adoption of HKFRS 9 HK\$'000	Expected credit loss allowance under HKFRS 9 HK\$'000
Trade receivables	23,084	840	23,924

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

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

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

1.2 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers

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

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

1.2.1 Key changes in accounting policies resulting from application of HKFRS 15

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

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

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



1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

1.2 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers (Continued)

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

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

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

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

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

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

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE
(Continued)

1.2 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers (Continued)

1.2.2 Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no material impact on the Group's accumulated losses as at 1 April 2018. The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position as at 1 April 2018. Line items that were not affected by the changes have not been included.

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

Note: At the date of initial application, included in other payables, accruals and receipts in advance was receipts in advance from customers and deferred income in respect of franchise income of HK\$18,706,000 and included in deferred income (non-current liabilities) was deferred income in respect of franchise income of HK\$186,000. This balance was reclassified to contract liabilities upon application of HKFRS 15.

Without application of HKFRS 15, as at 30 September 2018, the contract liabilities of HK\$12,759,000 in respect of receipts in advance from customers and HK\$64,000 in respect of franchise income would be included in other payables, accruals and receipts in advance.

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



2. REVENUE AND SEGMENT INFORMATION

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

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

The Directors monitor the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which represents the loss from each segment without allocation of that bank interest income, interest income from loan receivable, gain on disposal of financial assets at fair value through profit or loss, finance costs, write off of items of property, plant and equipment, gain on disposal of items of property, plant and equipment, net, as well as head office and corporate expenses.

(a) Operating segments

	For the six months ended 30 September					
	Distribution and trading of pharmaceutical products		Distribution and trading of tea and other food products		Total	
	2018	2017	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	2,614	2,795	54,030	42,466	56,644	45,261
Other income	-	101	684	1,221	684	1,322
Total	2,614	2,896	54,714	43,687	57,328	46,583
Segment results	(3,649)	(3,258)	(10,130)	761	(13,779)	(2,497)
Reconciliation:						
Bank interest income					912	556
Gain on disposal of items of property, plant and equipment, net					30	21
Interest income from loan receivable					-	666
Gain on disposal of financial assets at fair value through profit or loss					5,391	-
Write off of items of property, plant and equipment					-	(5)
Corporate and other unallocated expenses					(5,891)	(7,146)
Finance costs					(5,655)	(5,009)
Loss before tax					(18,992)	(13,414)

2. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Geographical information

Revenue from external customers:

	For the six months ended	
	30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
The People's Republic of China (the "PRC"), excluding Hong Kong	49,839	38,613
Hong Kong	2,614	2,795
Elsewhere in Asia	3,996	1,754
United States of America	195	2,099
	56,644	45,261

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



3. OTHER INCOME AND GAINS

	For the six months ended	
	30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Bank interest income	912	556
Franchise income	632	771
Subsidy income [^]	–	391
Others	52	160
	1,596	1,878
Gains		
Gain on disposal of items of property, plant and equipment, net	30	21
Gain on disposal of financial assets at fair value through profit or loss	5,391	–
	5,421	21
	7,017	1,899

[^] 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.

4. FINANCE COSTS

		For the six months ended 30 September	
		2018	2017
	Note	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Interest on finance leases		8	15
Effective interest expense on convertible bonds	12	5,647	4,994
		5,655	5,009

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

		For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Cost of inventories recognised as an expense		40,009	26,922
Depreciation		909	501
Write off of items of property, plant and equipment		–	5
Provision for slow-moving and obsolete inventories		25	–
Expected credit losses of trade receivables		4,237	–

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at 8.25% for the first HK\$2 million of profits of qualifying corporation and at 16.5% for the profit above HK\$2 million (2017: Nil). Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 September	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Current – PRC Enterprise Income Tax ("EIT")		
– For the current period	–	4
– Under-provision in prior years	–	3
Current – Hong Kong Profits Tax	720	–
Total income tax charge for the period	720	7

Deferred tax asset has not been recognised in respect of the tax losses of certain subsidiaries of the Company as it is uncertain whether taxable profits will be available against which the tax losses will be utilised.

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

雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited)^①, a subsidiary of the Company in the PRC, is qualified as High and New Technology Enterprise which is entitled to a reduced preferential EIT rate of 15% for a 3-year period from 31 July 2015 to 30 July 2018 according to the Detailed Implementation Rules of the EIT Law.

^① Official name of this entity is in Chinese. The English translation of the name is for identification purpose only.

7. INTERIM DIVIDEND

The Directors did not recommend the payment of any interim dividend for the six months ended 30 September 2018 (2017: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the six months ended 30 September 2018 attributable to owners of the Company of approximately HK\$19,712,000 (2017: HK\$13,421,000) and the weighted average number of ordinary shares of approximately 1,451,520,000 (2017: 1,451,520,000) in issue during the period.

For the six months ended 30 September 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 exercise would result in a decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2018, the Group acquired property, plant and equipment of approximately HK\$3,259,000 (six months ended 30 September 2017: HK\$452,000).

10. TRADE RECEIVABLES

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Trade receivables	54,664	50,094
Less: impairment losses	(25,863)	(23,084)
	28,801	27,010

The Group allows an average credit period ranging from 30 to 90 days (31 March 2018: 30 to 90 days) to its customers. Trade receivables are non-interest-bearing.



10. TRADE RECEIVABLES (Continued)

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

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Within 1 month	11,902	4,859
Over 1 month but less than 3 months	5,372	6,429
Over 3 months but less than 1 year	10,754	14,580
Over 1 year	773	1,142
	28,801	27,010

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 which 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, of approximately HK\$1,773,000 (31 March 2018: HK\$5,329,000), 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\$1,773,000 (31 March 2018: HK\$2,350,000) which are past due at the end of the reporting period. Part of these balances as at 30 September 2018 are settled subsequent to the end of the reporting period.

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

11. 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:

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Current and not yet due	402	1,176
Within 1 to 3 months overdue	155	2
Within 4 to 12 months overdue	–	–
Over 12 months overdue	481	483
	1,038	1,661

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

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Yunnan Longrun Tea Group Company Limited [®] (“LRTG”) 雲南龍潤茶業集團有限公司	68	646
Fengqing Longrun Tea Company Limited [®] (“FLRT”) 鳳慶龍潤茶業有限公司	18	397
Changning Longrun Tea Company Limited [®] (“CLRT”) 昌寧縣龍潤茶業有限公司	10	128
Yunnan Long Far Pharmaceutical Company Limited [®] (“YNLF”) 雲南龍發製藥股份有限公司 (formerly known as 「雲南龍發製藥有限公司」)	438	33
	534	1,204

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. YNLF is beneficially owned as to 89.4% and 10% by Dr. Chiu and Mr. Jiao respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company. The trade payables due 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.



12. 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 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>
Equity component	
At 31 March 2018 (audited) and 30 September 2018 (unaudited)	12,549

12. CONVERTIBLE BONDS (Continued)

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Note		
Liability component		
At the beginning of the period/year	58,767	52,032
Effective interest expense	4 5,647	10,299
Interest paid	(1,782)	(3,564)
Liability component at the end of the period/year		
	62,632	58,767

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

13. SHARE CAPITAL

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
<i>Authorised:</i>		
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
<i>Issued and fully paid:</i>		
At 31 March 2018 (audited) and 30 September 2018 (unaudited)	1,451,520,000	72,576

14. 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.

14. EQUITY COMPENSATION PLANS (Continued)

Share Option Scheme (Continued)

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 other 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.

During the year ended 31 March 2017, 2,000,000 share options were exercised.

No share options were granted, exercised or lapsed under the Scheme during both of the six months ended 30 September 2018 and 2017.

At 30 September 2018, 51,400,000 share options were outstanding 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:

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.



15. OPERATING LEASES COMMITMENTS

(a) As lessor

The Group leases part of its direct sales shops under operating lease arrangements, with leases negotiated for terms of ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustment according to the then prevailing market conditions.

At 30 September 2018, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Within one year	46	96

(b) As lessee

The Group leases certain of its office buildings and retail shops in the PRC and offices in Hong Kong under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years.

At 30 September 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2018 (Unaudited) HK\$'000	31 March 2018 (Audited) HK\$'000
Within one year	2,647	2,635
In the second to fifth years, inclusive	1,311	960
	3,958	3,595

16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

17. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) In addition to those transactions disclosed elsewhere in the condensed consolidated interim financial information, the Group had the following material transactions with related parties during the period:

	Notes	For the six months ended	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Sales of tea products to:			
Ideality Group^	(i), (vii)	–	1,187
Purchases of tea products from:			
CLRT^	(iii), (vii)	4,434	8,029
FLRT^	(iii), (vii)	7,910	10,337
LRTG^	(ii), (vii)	29,659	6,905
YTET^	(vi),(vii)	–	295
		42,003	25,566
Purchases of pharmaceutical products from:			
YNLF	(v), (vii)	675	270
Rental expense incurred to:			
YLRT	(iv), (vii)	207	243

Notes:

- (i) Ideality Group is beneficially owned as to 85.5% and 14.5% by Dr. Chiu and Mr. Jiao, respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company.
- (ii) 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.
- (iii) The companies are wholly-owned subsidiaries of LRTG.
- (iv) Yunnan Longrun Tea Development Company Limited® (“YLRT”), 雲南龍潤茶業發展有限公司, is beneficially owned as to 77% and 23% by Dr. Chiu and Mr. Jiao, respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company.



17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) (Continued)

Notes: (Continued)

- (v) YNLF is beneficially owned as to 89.4% and 10% by Dr. Chiu and Mr. Jiao, respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company.
- (vi) Yunxian Tianlong Eco-Tea Company Limited[®] (“YTET”), 雲縣天龍生態茶業有限責任公司, is a wholly-owned subsidiary of LRTG.
- (vii) The transactions were conducted at rates mutually agreed between the relevant parties.

[^] *The above transactions in respect of the sales of tea products and the purchases of tea products entered into by the Group during the six months ended 30 September 2018 also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.*

(b) Outstanding balances with related parties

In addition to those balances disclosed elsewhere in the condensed consolidated interim financial information, the Group had the following balances with related parties at the end of the reporting period:

- (i) The amounts due to related companies, 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited)[®] (“YLRP”) and YLRT, are unsecured, interest-free and have no fixed terms of repayment. YLRP is jointly owned by 龍潤藥業集團有限公司 (Long Run Pharmaceuticals Group Limited)[®] (“LRGL”) and 雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited)[®] (“YLI”). LRGL and YLI are beneficially owned as to 90% and 10% by Dr. Chiu and Mr. Jiao, respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company.
- (ii) The amounts due to directors of the Company are unsecured, interest-free and without fixed terms of repayment.
- (iii) At 31 March 2018, included in the other payables, the amount due to a related company, YLRT, of approximately HK\$131,000 is unsecured, interest-free and without fixed terms of repayment.

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

17. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

	For the six months ended	
	30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	5,069	4,998
Post-retirement benefits	54	54
Total compensation paid to key management personnel	5,123	5,052

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is unobservable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

None of the Group's financial assets and financial liabilities are measured at fair value at 30 September 2018. At 31 March 2018, the Group's financial assets are measured at fair value as below:

	At 31 March 2018			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Available-for-sale financial assets				
– Listed equity securities	7,500	–	–	7,500

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim financial information approximate their fair value. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

There is no transfer between the different levels of the fair value hierarchy for the period.

Fair value measurements and valuation processes

The fair value of listed equity securities is determined with reference to quoted market bid price from the Stock Exchange.

19. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information was approved and authorised for issue by the board of directors on 30 November 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 September 2018, revenue of the Group increased by approximately 25.1% to approximately HK\$56,644,000 (six months ended 30 September 2017: HK\$45,261,000). The increase was mainly due to the increase in sales derived from the direct selling platform.

Gross profit of the Group decreased by approximately 12.9% to approximately HK\$15,828,000 for the six months ended 30 September 2018 (six months ended 30 September 2017: HK\$18,173,000). The decrease in gross profit is mainly attributable to the difficult operating environment brought by (i) the continuous modification of rules and regulations by the local government on tourism related selling activities; and (ii) a lower profit margin derived from the sales related to the direct selling platform.

Other income and gains of the Group for the six months ended 30 September 2018 was approximately HK\$7,017,000 (six months ended 30 September 2017: HK\$1,899,000), increased by approximately 269.5% over the corresponding period last year. The increase was mainly resulted from the gain on disposal of the Group's financial assets at fair value through profit or loss of approximately HK\$5,391,000.

Selling and distribution expenses of the Group increased by approximately 21.5% from approximately HK\$14,009,000 for the six months ended 30 September 2017 to approximately HK\$17,025,000 for the six months ended 30 September 2018. The increase was mainly resulted from increase in advertising and rental expenses.

Administrative expenses of the Group for the six months ended 30 September 2018 amounted to approximately HK\$14,920,000 (six months ended 30 September 2017: HK\$15,122,000), which maintained at similar level compared to the corresponding period last year.

Other operating expenses of the Group increased to approximately HK\$4,237,000 for the six months ended 30 September 2018 (six months ended 30 September 2017: HK\$12,000). Such increase was mainly due to the increase in allowance for expected credit losses of trade receivables.

Loss before tax of the Group increased by approximately 41.6% from approximately HK\$13,414,000 for the six months ended 30 September 2017 to approximately HK\$18,992,000 for the six months ended 30 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL RESULTS *(Continued)*

Income tax expense of the Group increased to approximately HK\$720,000 for the six months ended 30 September 2018 (six months ended 30 September 2017: HK\$7,000). The increase was resulted from income tax provided for the gain on disposal of the Group's financial assets at fair value through profit or loss.

Loss for the period attributable to owners of the Company for the six months ended 30 September 2018 amounted to approximately HK\$19,712,000 (six months ended 30 September 2017: loss of HK\$13,421,000). The increase of loss for the period under review as compared to the corresponding period last year was mainly due to the decrease in gross profit resulting from the decrease in overall profit margin.

Basic loss per share was HK1.36 cents for the six months ended 30 September 2018 against basic loss per share of HK0.92 cent for the six months ended 30 September 2017.

BUSINESS REVIEW

Tea and Other Food Products Businesses

During the period under review, the Group focused on distributing tea and other food products under the well-established "Longrun (龍潤)" brand in the PRC market. For the period under review, the poor spending sentiment had continued to affect the consumer market in the PRC generally. Revenue for the period from tea and other food products businesses was approximately HK\$54,030,000 (six months ended 30 September 2017: HK\$42,466,000), accounting for approximately 95.4% (six months ended 30 September 2017: 93.8%) of the Group's total revenue.

Tea Shops

The Group's 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 30 September 2018, the Group managed a network comprising a total of over 600 tea shops (self-owned and franchised) located in Mainland China. Given the challenging consumer market, the management will continue to actively manage the network with a view to enhance brand and product recognitions in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

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 continue to be very challenging in the future.

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

Direct Selling

During the period under review, the Group started to supply tailor made tea products to one of the largest direct selling enterprises in the PRC, which contributed to the increase in revenue generated from direct selling platform as compared to the corresponding period last year. The Group will continue to strengthen its business relationship with this new customer by deploying more resources in new product development.

Healthcare and Pharmaceutical Business

During the period under review, revenue from healthcare and pharmaceutical businesses was approximately HK\$2,614,000 (six months ended 30 September 2017: HK\$2,795,000), accounting for approximately 4.6% (six months ended 30 September 2017: 6.2%) of the Group's total revenue.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS

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

Despite the uncertainties, the Group will continue to focus on brand building, new product development and new distribution channel development. In addition, the Group will continue to explore opportunities to set up its own tea manufacturing base in Yunnan Province with a view to reduce reliance on its suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2018, the Group had current assets of HK\$256,601,000 (31 March 2018: HK\$287,745,000) and cash and cash equivalents of HK\$214,286,000 (31 March 2018: HK\$153,336,000). The Group's current liabilities as at 30 September 2018 were HK\$109,489,000 (31 March 2018: HK\$113,050,000).

As at 30 September 2018, total equity was HK\$151,407,000 (31 March 2018: HK\$184,210,000). The Group had finance lease payables of HK\$257,000 as at 30 September 2018 (31 March 2018: HK\$467,000). The gearing ratio as at 30 September 2018, being the ratio of total liabilities to total equity, was 72.5% (31 March 2018: 61.6%).

On 27 January 2017, the Company issued 5.5% convertible bonds which are denominated in Hong Kong dollars with an aggregate principal amount of HK\$64,800,000 (the "Convertible Bonds") for cash to independent third parties. The Convertible Bonds will be matured on the second anniversary of the date of issue and the conversion price is HK\$0.27 per share subject to anti-dilutive adjustments. Neither the Company nor the holders of the Convertible Bonds may demand early redemption. The Convertible Bonds bear interests at 5.5% per annum on the outstanding principal amount and will 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. No Convertible Bonds had been converted as at the date of this report. 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

EMPLOYEES

As at 30 September 2018, the Group had 232 employees (31 March 2018: 244 employees).

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

CONTINGENT LIABILITIES

As at 30 September 2018, the Group did not have any significant contingent liabilities.

EXCHANGE RISK

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

PLEDGE OF THE GROUP'S ASSETS

As at 30 September 2018, the Group's assets have not been pledged to secure banking facilities granted to the Group.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 by Baker Tilly to the Board in November 2017. The Board noted the Group's internal control deficiencies identified by Baker Tilly and certain remedial measures have been adopted and implemented by the Board to address the deficiencies. The audit committee of the Company considered that the remedial measures implemented by the Company are sufficient and adequate to address the deficiencies. Details of which were set out in the Company's announcements dated 22 June 2018 and 24 August 2018.

SUPPLEMENTARY INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2018, the interests of the directors (the "Directors") and the chief executive of the Company and their respective associates in the shares, debentures and underlying shares of the Company and its associated corporations which were required, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

(A) Long position in ordinary shares of the Company

Name of Director	Capacity	Number of ordinary shares	Percentage* of the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	805,804,500	55.51%
Ms. Yeh Shu Ping	Beneficial owner	35,545,500	2.45%
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	0.08%
Dr. He William (also known as Lu Pingguo)	Beneficial owner	16,880,000	1.16%

SUPPLEMENTARY INFORMATION *(Continued)*

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

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

Name of Director	Capacity	Number of underlying shares	Percentage* of underlying shares over the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	1,400,000	0.10%
Ms. Yeh Shu Ping	Beneficial owner	10,000,000	0.69%
Mr. Jiao Shaoliang	Beneficial owner	10,000,000	0.69%
Dr. He William (also known as Lu Pingguo)	Beneficial owner	10,000,000	0.69%
Mr. Lam Siu Hung	Beneficial owner	1,000,000	0.07%
Mr. Guo Guoqing	Beneficial owner	1,000,000	0.07%
Mr. Kwok Hok Lun	Beneficial owner	1,000,000	0.07%
Dr. Liu Zhonghua	Beneficial owner	1,000,000	0.07%

Note: Details of the above share options granted by the Company are set out in the section headed "SHARE OPTIONS" in this interim report.

* The percentage represents the number of ordinary shares/underlying shares involved divided by the number of the Company's issued shares as at 30 September 2018.

In addition to the above, as at 30 September 2018, Dr. Chiu Ka Leung holds one ordinary share in each of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited and Long Far Health Products Limited (in both cases in trust for Long Far Pharmaceutical (BVI) Limited and both of which are indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the then minimum company membership requirement.

SUPPLEMENTARY INFORMATION *(Continued)*

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

Save as disclosed above and in the section headed "SHARES OPTIONS" below, as at 30 September 2018, none of the Directors or chief executive of the Company or any of their associates had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 30 September 2018, the following persons/corporations (other than the Directors or chief executive of the Company) who had interests or short position of 5% or more of the issued shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or as the Company is aware:

(A) Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares	Percentage* of the Company's issued share capital
Guo Jinxiu	Interest held by spouse (Note 1)	805,804,500	55.51%
Chen Fang	Beneficial owner	110,000,000	7.58%
徐永鋒	Beneficial owner	100,000,000	6.89%
Law Fei Shing	Interest of controlled corporations (Note 2)	764,215,000	52.65%
True Promise Investments Limited	Interest of controlled corporation (Note 2)	764,215,000	52.65%
Excel Precise International Limited	Person having a security interest in shares (Note 2)	764,215,000	52.65%

SUPPLEMENTARY INFORMATION *(Continued)*

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

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

Name	Capacity	Number of underlying shares	Percentage ⁺ of underlying shares over the Company's issued share capital
Guo Jinxiu	Interest held by spouse (Note 1)	1,400,000	0.10%

Notes:

1. Ms. Guo Jinxiu, being the spouse of Dr. Chiu Ka Leung, was deemed to have such interest held by Dr. Chiu Ka Leung. Such interest of Dr. Chiu Ka Leung has been disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES" above.
2. Excel Precise International Limited was a company owned as to 25% by Mr. Law Fei Shing and 73.5% by True Promise Investments Limited. True Promise Investments Limited in turn was wholly-owned by Mr. Law Fei Shing. Accordingly, Mr. Law Fei Shing and True Promise Investments Limited were deemed to be interested in these shares which Excel Precise International Limited was deemed to have a security interest.

⁺ *The percentage represents the number of ordinary shares/underlying shares involved divided by the number of the Company's issued shares as at 30 September 2018.*

Save as disclosed above, as at 30 September 2018, no person, other than the Directors or chief executive of the Company whose interests are set out in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES" above, had registered an interest or a short position in the shares, underlying shares or debentures of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

SUPPLEMENTARY INFORMATION *(Continued)*

SHARE OPTIONS

As set out in note 14 to the interim financial information, the Company currently operates a share option scheme adopted on 17 August 2012 (the “Scheme”) (which is made pursuant to Chapter 17 of the Listing Rules) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Details of the movements of the Company’s share options granted under the Scheme during the six months ended 30 September 2018 are as follows:

Name or category of option holder	Outstanding as at 1 April 2018	Number of share options			Outstanding as at 30 September 2018	Date of grant of share options	Exercise period of share options	Exercise price per share (Note)
		Granted during the period	Exercised during the period	Lapsed/Cancelled during the period				
Directors								
Executive directors								
Dr. Chiu Ka Leung	1,400,000	-	-	-	1,400,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Ms. Yeh Shu Ping	10,000,000	-	-	-	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Mr. Jiao Shaoliang	10,000,000	-	-	-	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Dr. He William (also known as Lu Pingguo)	10,000,000	-	-	-	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Independent non-executive directors								
Mr. Lam Siu Hung	1,000,000	-	-	-	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Mr. Guo Guoqing	1,000,000	-	-	-	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Mr. Kwok Hok Lun	1,000,000	-	-	-	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Dr. Liu Zhonghua	1,000,000	-	-	-	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Subtotal for Directors:	35,400,000	-	-	-	35,400,000			
Employees of the Group								
In aggregate	16,000,000	-	-	-	16,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Subtotal for employees:	16,000,000	-	-	-	16,000,000			
TOTAL:	51,400,000	-	-	-	51,400,000			

Note: The number and/or exercise price of the share options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company’s share capital.

SUPPLEMENTARY INFORMATION *(Continued)*

ISSUE OF CONVERTIBLE BONDS

On 9 December 2016, the Company entered into the placing agreement (the “CB Placing Agreement”) with Supreme China Securities Limited, pursuant to which the Company had agreed to appoint Supreme China Securities Limited as the placing agent for the purpose of procuring not less than six independent professional, institutional or other investors as the placees to subscribe in cash for the convertible bonds in a maximum aggregate principal amount of up to HK\$64,800,000 issued by the Company on the terms and subject to the conditions set out in the CB Placing Agreement. The Board considers that the CB Placing Agreement represented an opportunity to potentially enlarge and diversify the shareholder base of the Company and to raise further working capital for the Group.

The completion of the CB Placing Agreement took place on 27 January 2017. Convertible bonds in the principal amount of HK\$64,800,000 (the “Convertible Bonds”) have been issued by the Company to 7 placees. The Convertible Bonds can be converted into 240,000,000 ordinary shares of the Company at any time on or before 5 business days immediately prior to 28 January 2019 at a fixed conversion price of HK\$0.27 subject to certain anti-dilutive adjustments at the discretion of the holders that are independent third parties. The net proceeds from issuing the Convertible Bonds of HK\$62,967,000 were intended to be used for the Company’s possible future investments in the healthcare sector and for the settlement of the Group’s general and administrative expenses. During the reporting period and up to the date of this report was approved by the Board, no notice had been received from the holders requesting conversion. If all of the Convertible Bonds outstanding as at the end of the reporting period were converted into ordinary shares of the Company at the conversion price of HK\$0.27, 240,000,000 ordinary shares of the Company will be issued.

Please also refer to note 12 to the interim financial information and announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017 and 6 February 2017 (the “Announcements”) for further details of the Convertible Bonds.

SUPPLEMENTARY INFORMATION *(Continued)*

UPDATE ON USE OF PROCEEDS IN RELATION TO FUND RAISING ACTIVITIES

The Company would like to provide the update in respect of the use of the net proceeds in relation to the past fund raising activities during the period under review as at 30 September 2018:

Reference is made to the Announcements in relation to placing of and issue of convertible bonds. Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Announcements.

Intended use of proceeds (as disclosed in the announcement of the Company dated 19 January 2017)	Actual use of proceeds during the period under review	Intended use of proceeds after the period under review
---	--	---

An amount of net proceeds of HK\$62,967,000 was raised from issue of HK\$64.8 million 5.5% interest Convertible Bonds in January 2017 and the net proceeds were intended to use as follows:

- | | | | |
|-----|--|--|--|
| (a) | an amount of approximately HK\$27.8 million to be used for the possible future investments in the healthcare sector, in particular, in the manufacturing and/or trading of healthcare products such as pharmaceutical products, dietary supplements and health food; and | an amount of HK\$27.8 million has not been utilised. | Such intended use of proceeds will remain unchanged. |
| (b) | an amount of approximately HK\$35 million to be used for the settlement of the Group's general administrative expenses (including staff and related costs, legal and professional fees, finance costs, rental expenses and other administrative expenses) for the next 18 months from the date of the announcement of the Company dated 19 January 2017. | an amount of HK\$35 million has not been utilised. | Such intended use of proceeds will remain unchanged. |



SUPPLEMENTARY INFORMATION *(Continued)*

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 period under review.

AUDIT COMMITTEE

The audit committee of the Company, comprising three independent non-executive Directors (being Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun), has reviewed with management the unaudited consolidated interim financial information for the six months ended 30 September 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 six months ended 30 September 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 reports for the years ended 31 March 2017 and 2018, as well as the publication of interim results and dispatch of interim report for the six months ended 30 September 2017, had been deferred. Accordingly, the Company failed to hold its annual general meeting within the times stipulated under the Listing Rules and the Company's articles of association, and that Mr. Jiao Shaoliang and Dr. He William did not retire by rotation at least once every 3 years in accordance with the said code provision A.4.2. At the forthcoming annual general meeting of the Company to be held on 24 December 2018, 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.

SUPPLEMENTARY INFORMATION *(Continued)*

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding the Directors' dealings in the Company's securities (the "Code"). All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the Code throughout the period under review.

COMPLIANCE WITH THE WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES OF THE COMPANY

The Company has established written guidelines for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company during the six months ended 30 September 2018.

By order of the Board
Chiu Ka Leung
Chairman

Hong Kong, 30 November 2018

